

CHALLENGE

THE MAGAZINE OF ECONOMIC AFFAIRS

Volume 3

1954-1955

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Economics in Action . *Oct. 1954*

Economics and politics are usually so entangled, particularly around election time, that it is often difficult to tell which is which. Some of the hottest political issues are economic, and nearly all economic issues have political overtones. So, while campaigning politicians "point with pride" or "look with shame," it might be a good idea to check off some of the economic highlights of the last Congressional session:

Taxes—In its first major overhaul of the Internal Revenue Code since 1875, Congress provided for about \$1.3 billion worth of tax relief for fiscal 1954-55, with more to come later. Key features of the new law, which runs into hundreds of pages, include more liberal depreciation allowances for business and industry, partial relief from dividend taxation, more generous deductions for persons over 65, and consideration for working mothers with baby-sitters, unrelated dependents, etc. In a separate law, Congress also cut excise taxes by an estimated \$1 billion on a wide range of products.

Agriculture—Congress ended the "rigid" agricultural price-support program based on 90% of parity, which has been in effect since 1942. Instead, it passed a new "flexible" program which authorizes the Secretary of Agriculture to adjust support prices on a sliding scale, ranging from 82.5% to 90% of parity, depending on prospective supply and demand.

Atomic Power—Congress gave industry the right to own and operate atomic reactors for the production of power, but it insisted on compulsory sharing of atomic patents for the next five years and preferential treatment for public bodies and rural cooperatives in the sale of AEC power.

Economics in Action . *Oct. 1954*

These three pieces of legislation will play an important role in the U.S. economy for years to come. There will be a lot of Monday morning quarterbacking on all three as time goes on, since none of them passed without opposition from large blocs of legislators.

While most economists believe that we won't begin to feel the full impact (good or bad) of these very complex laws for some time, Congress also legislated other important laws whose over-all effects will be more immediate:

Social Security—Congress extended Social Security benefits to 10 million more persons (including farmers, some professionals and some state and local government employees) and increased monthly payments by anywhere from \$5 to \$23.50. For many wage workers this means an increase of \$12 a year in Social Security taxes. In a separate law Congress also expanded unemployment compensation to include an additional 4 million persons.

Housing—Congress sought to liberalize FHA-guaranteed mortgages by providing for smaller down payments and extension of maximum mortgage terms from 25 to 30 years. It also authorized the construction of 35,000 public housing units this year, although the law is framed in such a way that many experts doubt whether the stipulated number will actually be built.

Securities—Investment houses got a break when Congress voted to amend the Securities and Exchange Act to permit easier and faster marketing of new securities.

All in all, Congress voted \$47.9 billion in new money
(Cont'd on p. 63)

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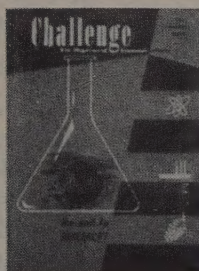
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a personal note

STATISTICS CAN BE INCREDIBLY COMPLICATED AND MISLEADING. Yet, when they are scientifically collected, accurately compiled and carefully evaluated, they can present a very graphic illustration of economic conditions and trends in the nation.

Since statistics are derived from a mass of information, from thousands upon thousands of variables, they are bound to present an impersonal picture which is panoramic in scope and rather fuzzy on close-ups. If we experience some disappointment with economic statistics because they do not always accurately depict our own personal situation, or because the conclusions to be drawn from them do not agree with our personal opinions or observations, we must remember that statistical data can be collected from a much larger world than the one we individually live in and are familiar with.

Most people look at economics from the point of view of personal needs and wants. This is a human failing, and because of it we sometimes do not see the progress and change taking place in our society totally. We would prefer to use a personal microscope rather than a public telescope to view the mass of the economic world. If such subjective habits curtail our perspective, fortunately we have statistics with which to revive the sense of mass and proportion.

There is a purpose behind the recurrence of the word "mass" in the paragraphs above. What I am leading up to is that in this mass production, mass consumption and mass communication society of ours, the economic future of the nation depends on what average people—the masses—do, or fail to do. Individuals in economic positions so unusual that they cannot be counted among the masses command an ever-dwindling economic influence. This can be proved by citing some statistics, which I hope you will find as interesting as I found them to be.

Fairly complete studies of income distribution cover only the past twenty years, but despite this short span of time the figures indicate a strong and steady trend toward a more equal distribution of income. Our system of progressive taxation has been partially responsible for this trend; but most of it is due to the fact that while wage and salary income has consistently accounted for from 60 to 67 percent of the total personal income received, income from interest payments and property

has been, relatively, declining. The personal income curve has developed a bulge in the middle ranges, a sort of slightly graded plateau on which the majority of the people can be found.

The Treasury Department has not been unmindful of this development. In 1951 it estimated that individuals in the highest tax bracket—with taxable incomes of more than \$50,000—would pay only 1.5 percent of the total expected income tax revenue. As a matter of fact, if on top of existing taxation the Government had *confiscated* every dollar of taxable income over \$4,000 (and this brings us down almost to the average man's plateau), the total money collected from the upper brackets would have amounted to only \$26.56 billion, or just 29.5 percent of the revenue expected from personal income taxes. Clearly, if the Treasury had to rely upon the higher-income people, the Government would soon find huge gaps in its budget. The big money is to be found among the average people—the masses.

THERE IS ONE OTHER statistical observation I should like to make, and after that we must consider an important problem. In 1950 the top 10 percent of income receivers accounted for 73 percent of the total savings in the country.

Now, the problem is this: If the average income earners are taking the major share of the total personal income; if there is a trend toward a more equal distribution of personal income; and yet, if past experience shows that the major part of all personal savings comes from those in the higher income brackets—if these things are true, does it not follow that the entire structure of savings in this country is being threatened?

The answer is that thus far, throughout the period of change in the social and income distribution pattern, the rate of total savings has remained fairly consistent. It is to be hoped that the function of savings and the importance of investing for future growth will not be forgotten. Fortunately, the channels of investment for the new, "small" saver are already well established. Whether he knows it or not, the average man is saving and investing when he puts his small amounts in the bank or when he buys a life insurance policy. He is being more direct about it when he buys shares in a mutual fund or stocks and bonds on the installment plan. But he *is* saving, and more people like him will have to do the same thing.

What we each individually contribute to the saving process may not amount to much, but when it is all put together in one mass, it pulls a lot of weight. The statistics prove it.—H.B.

The cost of armaments, coupled with demands for more and more governmental outlays for "special benefits," could put the economies of the West in a position of permanent inflation

IS INFLATION HERE TO STAY?

by Paul Einzig

IT IS NOW an all but forgotten historical fact that the rise of democratic movements during the 17th and 18th centuries was partly inspired by the desire to put an end to monetary abuses. Debasing the coinage, by "watering down" its gold or silver content, or relying upon the printing presses to "make" more money was a constant vice of despotic monarchs. Their irresponsibility in this respect was surpassed only by their ignorance. They failed to realize that by reducing the value of their money—for whatever immediate advantage it might give them—they not only inflicted the hardships of inflation on their subjects, but also eventually weakened their own position. Having debased the coinage or inflated the currency, thereafter they had to accept their revenue in the form of depreciated money.

The horror with which old-time liberals viewed these disastrous monetary practices of absolute rulers has apparently passed into

limbo. For we must admit that today's constitutional governments and their democratically elected parliaments are as fully shortsighted in respect to inflationary practices as were the medieval lords.

Governments today continue to live beyond their means. Of course, they now possess far more subtle instruments than the crude ones of debasing the coinage or running the printing presses overtime. In modern countries such as the United States or Great Britain, the issuance of government bonds or a timely expansion of the credit system makes possible the commonplace practice of deficit financing. The outcome is substantially the same as that of debasements and of crude paper-money inflation. There is only one difference. While despotic regimes increased the money supply to finance the excesses of the numerically insignificant ruling class, democratic regimes are moved to satisfy the misguided demands of the mass

of voters on whose support constitutional governments depend. In truth, a "little" inflation has come to be looked upon as a good and necessary thing.

The extraordinary expenditures necessary to finance offensive or defensive wars has been a common experience for all nations throughout the history of the medieval and modern world. Our own experiences with inflation during World Wars I and II are sufficiently recent and do not require review. Because the years since 1945 have been marked by international tensions and tremendous outlays for rearmament, for all intents and purposes the inflationary pressures of preparation for war have beset most of the world since 1939.

In the old days it was possible to reduce the consumption of the civilian population in order to make available the resources needed for rearmament. Generally speaking, the people did not count for much in the affairs of state, so the ruling classes could dictate such a policy and get away with it. Today this seems to be impracticable. The political destinies of democratic governments are controlled by tens of millions of

voters, and they mean to have guns *and* butter.

It may be possible to have both, up to a point, but only at the cost of rising prices. If on top of these difficulties people continue to expect government-financed social benefits, then the combined effect is bound to be inflationary, if not eventually ruinous.

As deplorable as the cost of armaments is, it is nonetheless inevitable in the face of the growing threat from the Communist bloc. But there is nothing inevitable about nonmilitary expenditures.

Yet, in the Western democracies the cost of armaments and social benefits seems to rise constantly no matter which political party is in power. Despite their good intentions, the Conservative Government in Britain and the Republican Administration in the United States have found it difficult to reduce inflationary spending substantially. They seem to be rowing against the tide even at times when the electorate hopefully puts them in office.

In Britain, for example, attempts to cut down the cost of educational benefits, of national health service and of other social-benefit devices have encountered the utmost resistance and finally had to be abandoned. The only result of the effort to save the hundreds of millions of pounds

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hitherto spent annually on food subsidies was that the expenditure reappeared in a new form—namely, subsidies to farmers.

IN THE United States, the Republican Administration has been somewhat more successful. But even there social security benefits have been increased, additional appeals for subsidy from a host of nonprofit-making businesses and industries constantly beset Washington; while the compromise on the new farm subsidy program finds everyone standing about with fingers crossed, hoping for the best but expecting the worst. A decline in income of any favored group, whether it be of farmers, shipowners or organized workers whose jobs depend upon Government contracts, will probably bring down upon the Republican Administration a vote of wrath in the next elections.

No one can logically argue that it is bad when an entire nation, or any group within a nation enjoys an increase in its income. If this improvement is a result of greater contributions to the economy, then it is good. If it is the result of a government handout or subsidy, which means its cost will be borne by future taxpayers or at the expense of one segment of society for the benefit of another then it is bad. Recipients of subsidized benefits who complain

about the reduction in the real value of their benefits because of inflation ignore the fact that higher prices are a natural and inevitable effect of their expense to the government. Real social benefits are *produced*. They are not *bought* with money which the government extracts out of the normal flow or creates through the mechanism of the credit system.

THE equalitarian trend in modern democracies, as a result of which incomes gradually are levelled, has also contributed to rising prices. There is nothing wrong with this trend toward greater equality, so long as it does not mean equal poverty. What has happened is that because of high government expenditures and a graduated income tax, the higher income groups have been penalized. Together with the constant rise in wages, this has caused a redistribution of income, a decline in the number of rich and a tremendous broadening of the middle range. It is this middle-income group which must support the high rate of government expenditure. Since traditionally those with higher incomes save a greater percentage of their earnings than those of modest means, there is a real question as to whether the middle-income group will be able to contribute to the national pool of savings while at the same time

paying sizable sums to the government to finance its vast expenditures. There has been a tendency in the democratic nations to save less and spend more, particularly since the requirements of the government remain at such high levels. Each year we pay the price in the form of a little more inflation.

Preoccupation with the slogan "full employment" is another contributing factor to the inflationary trend. Full employment is also a good thing, provided it is the result of a truly productive economy. Our democratic societies should constantly work toward the achievement of this goal, but it is not wise to force governments deliberately to adopt inflationary "aid" measures as soon as there are signs of a decline in employment. Yet, such pressures are always present in a democracy. They emanate from labor unions mostly, but from many businessmen, as well, who fear a repetition of the experiences of the 1930s. Under universal suffrage the maintenance of full employment, or at least *almost* full employment, is becoming an absolute political necessity. Governments wishing to remain in office must take this into account, even if full employment can be achieved only at the cost of subsidized jobs.

Even people who know better and strongly disapprove of infla-

tion are inclined to admit reluctantly that "creeping inflation" is a lesser evil than risking a slowdown in the economy. The public is led to believe that there is such a thing as "inflation without tears."

In view of the combined effect of all these influences, hopes may have to be abandoned that the inflationary trend can be halted, if not reversed, by increasing industrial efficiency and lowering the cost of production. The increase in industrial output in recent years has not been able to halt the rise in prices. Due to the strong bargaining position of labor organizations, any benefits arising from an increase in efficiency are liable to accrue, and have accrued, largely to organized workers. In Britain this has already greatly curtailed the flow of new capital into enterprises involving risk.

IT IS POSSIBLE that the ever-increasing demands of government in the form of higher taxes, coupled with an overly large share of the national income being paid out in high wages will gradually handicap the progress of industrial efficiency. Once again it must be stated that high wages are not bad, provided those who receive them will grasp the significance of savings and be willing to put those savings into invest-

ments for future productive growth. This is a process whereby people can best help to help themselves, thereby reducing the pressures upon democratic governments to finance and administer social-benefit programs of one form or another.

Whatever the immediate advantages of subsidized social service and enforced full employment may be, it is necessary to realize that dependence upon such devices discourages the habit of saving. An economy which tries to live with inflation multiplies all of the factors which make inflation. An average rise of five points in the cost-of-living index doubles the price level in twenty years and halves the real value of savings. Once it is widely realized that this is bound to happen, the will to save is broken. Thus we travel the full vicious cycle.

IT IS OUT of the question to expect modern democratic governments to reverse themselves and sacrifice all social considerations

for the sake of maintaining monetary stability. But in recent years the pendulum has swung too far in the opposite direction. What is needed is a reconsideration of priorities. To give monetary stability an absolute right of way would result, under present circumstances, in wholesale unemployment and widespread suffering. Such a direct reversal would endanger the very existence of our democratic way of life. On the other hand, to subordinate everything to the desire to live better than we can really afford, by indulging in inflationary practices, involves equally grave dangers. In the long run, we shall bankrupt the very means by which a constantly improving standard of living can be attained.

A compromise must be struck between economic reality and social objective. Let us have social progress, by all means. But let us have *reasonable* social progress, maintaining at the same time a reasonable degree of monetary and economic stability. ■



No Choice in the Matter

THE HUNGARIAN SECRET POLICE arrested two citizens, but shortly after released one of them. Before the freed man left the station he managed to ask the one who was detained: "What did you confess to?"

"I confessed that I bought sugar on the black market."

"Why did you confess it, for heaven's sake?"

"I couldn't help it; the man who interrogated me had sold me the sugar."—*News From Behind The Iron Curtain*

Of the \$4 billion we spend annually on scientific projects, only 5 percent goes for basic research and inquiry—a fact the Soviets are counting on in their long-range plans



How Much for Research?

IT IS NOW generally appreciated that no nation possesses a monopoly on human brains and that no single group of scientists located in one country possesses a monopoly on knowledge. The procedures for research are as widely known among the scientists of the world as are the functions of the foot brake and the clutch to automobile drivers everywhere.

Unfortunately for that part of the world where the individual is still someone who counts, it cannot be said that the scientists who pursue their arts in a free society are, automatically, better than those who live behind the Iron Curtain. If one insists upon drawing comparisons, the most we can say is that a difference is to be

found in the ends for which scientific inquiry is conducted. But for all practical purposes, the day-to-day progress of science in both Russia and the United States depends entirely upon the amount of effort that is put to the task of inquiry. Whichever country puts forth the greater and more effective effort will, in all likelihood, achieve its objective first.

American science appears very healthy, indeed, at first sight. In the last ten years we have won more Nobel Prizes than any other country. We have won more prizes in medicine and physiology than the rest of the world put together. We are spending about \$4 billion a year on scientific research and development. This is more than one percent of our entire national income and represents four and one-half times the money we spent on research twelve years ago.

With our present increased rate of expenditure on scientific activ-

This article is based on material supplied to CHALLENGE by a research chemist working in the labs of a large university. CHALLENGE has added its own editorial emphasis.

ity, then, should we not expect that our leadership will continue, or even extend its lead? Much of the answer to this question rests on the way the money is being spent.

The most single important fact about science in the United States today is that it is geared, for the most part, to the defense effort. The Federal Government supplies more than 60 percent of the money for all research and development, and this money is almost totally used for military purposes. Of course, in the present state of the world, no one can say that such huge appropriations for research on behalf of military supremacy represent money not well spent. It is a sensible, practical expenditure. But the very practicality of it demonstrates the flaw in our scientific research program, and we shall return to this point later on.

Almost all of the remaining investment in research comes from industry. Giant strides are being made in the fields of plastics, fabrics, automatic machine tools, fuels, color TV and medicines.

The picture does indeed look bright. Study is going into better weapons for our defense and better goods for our comfort and welfare. The only thing we are neglecting is basic research.

Now what makes basic research so important? The major impor-

tance of basic research is that it opens up new fields. It is performed mainly to satisfy intelligent curiosity rather than to reach specific, practical goals. Thus, when Enrico Fermi bombarded uranium and other elements with neutrons just to see what would happen (he did this in Rome during the '30s), he was doing basic research. However, when he directed the building of the first atomic pile in Chicago in 1942, that was applied research. And when North American Aviation designed a commercial atomic pile for use by research organizations, that was development. Where, in the order of importance, would you rank Fermi's earlier work?

NOWADAYS only about five percent of the national expenditure on science goes for basic research. In prewar years the figure was fifteen percent. What accounts for this decline in emphasis on basic research? The first reason we have already stated: much of today's research is intended to meet military exigencies. But beyond this is the change in the nature of research going on in our universities. Traditionally the universities have carried out the most basic of research. But increasingly the skills and energies of our universities have been diverted into applied research by

allocations of funds from Government and industry.

Another important factor is that we have, to a great extent, cut off Europeans from our own research—and in turn cut off their research from our scientists. Formerly we drew heavily from the continent for both men and ideas. Einstein, Wigner, and Szilard, the scientists who did most to persuade the United States to undertake the atom-bomb project, were all born in Europe. So was Fermi who was in charge of atom-pile work; and Teller, who played the key role in fusion-bomb design. The basic knowledge that made the atom bomb possible rose mainly from Europe. We have, of late, drifted into a policy of scientific isolation, which could in the long run hurt us very badly.

What about general scientific conditions in Russia? In the Soviet Union, we find science fully under state control and subject to the usual five-year plans. There is no way of measuring how much money goes into science in the Soviet Union, but we know something about its organization.

RUSSIAN science is directed from the Academy of Sciences and the Ministries of Industry, Armed Services and Higher Education. Most of the basic research goes on in the numerous "institutes" of the Academy of Sciences as

well as in the vast network of universities.

As for the over-all quality of Russian science, it has been likened to the girl in Longfellow's poem: "when it is good, it is very, very good; but when it is bad, it is horrid." Unfortunately, Russian science is good mostly in those fields where it proves a threat to us, and not so good in the fields where we might share in possible gains.

Russian science is strongest in the fields of mathematics, physics, metallurgy and meteorology. In most of the biological sciences, on the other hand, Russia is very weak, indeed.

When we match our performance against that of the Russians, we find that in applied research and industrial development we hold, and are likely to maintain, a sizable superiority. Our competitive, capitalistic system has enormous advantages over communism in so far as inspiring efficiency and ingenuity are concerned.

In basic research, however, capitalism possesses no such intrinsic advantages. Basic research is not much influenced by the profit motive because its economic fruits usually take many years to materialize. In basic research, the Russian physicist in his laboratory works and thinks very much like an American or British scien-

tist. He may have to begin and end his papers with tributes to Lenin and Stalin—and now Malenkov and Khrushchev—but otherwise his papers read like those of any other scientist anywhere.

IN SOME ways the Russians hold a distinct advantage. First of all, they benefit heavily from our scientific work, while we get negligible benefits from theirs. Translations of Western scientific papers and surveys of Western science are distributed to Russian scientists, while the Russian scientific literature is largely lost to us because it is rarely translated in full.

Moreover, the Russian scientist enjoys a prestige in his country which might well be envied by our own men of science. This prestige factor must not be overlooked. Why does Russia have the world's best chess players? The most likely answer is that in Russia a great chess player is a national hero, admired like a Babe Ruth or a Jack Dempsey. For the same reason, among others, Russia is likely to turn out an increasing number of good scientists. High prestige attracts talented Russian youth into science while encouraging mature scientists to do their best work.

For the present we have more and better scientists and engineers than Russia, but this ad-

vantage is rapidly dwindling. According to the Russian Research Center of Harvard University, by 1956 Russia will be graduating about 45,000 engineers per year—as against about half that number in the United States.

The same situation applies to the teacher-training programs of both nations. Every year the teacher shortage in the United States gets worse. Science teachers are in the shortest of supply. The number of qualified graduates, for example, dropped from 9,096 in 1950 to 3,978 in 1954. In Russia, teacher-training is given top priority—and teachers in the scientific fields are encouraged more than any other. It is true that Russia suffered from such a tremendous shortage of trained personnel that her percentage rate of increase is likely to be very large. Nevertheless, within the next ten or fifteen years Russia could very well hold an absolute advantage over the United States.

When we consider these facts, we must conclude that in comparison to Russia we are still strong in the quality and quantity of our science, but weak in long-range cultivation—cultivation both in the fields of inquiry and of the brains that will enter these fields.

It is by no means true that precisely at those points of scien-

tific development in which we are weak Russia is necessarily strong. For example, we do not know exactly how much money and time is being spent in Russia on basic research, although we do know that it is a matter of official policy to encourage inquiry at the most basic level, particularly in the fields which promise long-range military and technical advances. But in a very real sense, our own failure to give adequate attention to basic research could prove to our disadvantage and therefore, by default, an advantage to Russia.

Gerard Piel, publisher of *Scientific American*, was probably right when he said, "In unpredictable ways the basic research we did not do today will hamper and cripple the progress and prosperity of our country fifty years from now." But while the need for putting much greater emphasis on basic research is quite clear, the manner in which this is to be accomplished is somewhat more difficult to ascertain.

It is not feasible to try to impose the initiative on particular officials in Government or business who presently oversee most of the financing of research. Under present policies, basic re-

search does not enter their working lives as a tangible responsibility.

The need can be better met if an awareness of the problem is developed throughout the entire range of American society. An understanding of the shortcomings in our scientific research programs will do more to bring about changes than anything else.

WE HAVE come a long way in this country without regimentation. We are now facing a test of our ability to progress in a world where survival as well as normal good living depend upon a complicated technology and fast-moving scientific developments. The point is to meet this test with a maximum degree of national agreement and a minimum degree of enforcement, with a maximum of maneuverability and a minimum of restriction. If we can successfully accomplish this, the results will reach beyond our borders. In the largest sense, the outcome of what we decide to do will go a long way toward determining the future political history of the world. It will tip the precarious balance which now exists—either toward world freedom or world regimentation. ■

ABOUT 10 PERCENT of the national income is spent in the United States each year for the purchase and operation of automobiles.

The Boom in 'Atomic' Enterprises



by Ellis Haller

While Government chaperoning of Big Business and atomic energy ended only recently, scores of small businesses have been getting big on atom-related products

THE ATOMIC ENERGY COMMISSION got a letter of inquiry recently from a small manufacturer of electric steam irons. "Can you tell me," the query went, "whether atomic energy has been developed to the point where I can design a self-powered electric iron—one that won't have to be plugged into an electric circuit?"

The idea of an atomic steam iron was no pipe dream to the staff of AEC. But, at present, it would take several tons of concrete molded around an atom-powered pressing iron to shield its user from radiation. This enterpriser was just a little ahead of fast-moving developments.

He is typical, however, of a new type of businessman who has sprung up across the nation. While a vast majority of the American public has been suffering from

"atomphobia"—not knowing whether to cheer or fear atomic energy—scientists and industrialists have been directing their efforts toward the goal of making the atom pay off on its potential for shaping a better tomorrow. What is more, most of them have done this without Government aid or big business backing.

The atomic-products entrepreneur of today is quite likely to be an individual who blends his training as a scientist with the urge to meet and create the product demands of the market, thereby profiting himself while spearheading progress on behalf of all.

According to AEC reports, there are about 3,400 institutions and about 15,000 individuals using and experimenting with radioactive materials. Among these are 860 business firms located

throughout the United States.

The new atomic energy law will foster increased private participation in the field of practical application of the atom. Private firms will now be able to own atomic reactors, the big furnaces that release the energy from the atom. They will also be permitted to lease uranium and other fissionable material from the Government and to sell atomic by-products under Government license.

To the operators of small and medium-sized businesses, this loosening of Government controls on the atom for peacetime use creates new market and product opportunities. Contrary to popular belief, the atom can be employed by the smallest firm as well as the largest. Big business presently has the greatest interest in that part of atomic energy which can move turbines to produce power. Yet there is a vast atomic frontier out of which can be carved the products used daily by both consumers and industry. The small enterpriser is staking huge claims all over this frontier.

Where do the commercial uses for atomic energy arise? First, let us consider what happens when the atom is split to extract its pent-up energy.

A nuclear reaction produces

Ellis Haller is a copy editor and roving business writer for The Wall Street Journal, New York.

three things: heat, radiation and fission products (the ashes from an atomic furnace). The heat generated from atom-splitting can be used for power and electricity. But much of the productive and peacetime future of the atom also resides in the use of radioactive isotopes and fission products. These can be adapted to do jobs which our most precise machines and our most wonderful chemicals have been incapable of heretofore.

A radioisotope is made by exposing a harmless chemical element to intense atomic radiation. Under this radiation, the atomic structure of the element becomes unstable and gives off rays at precise intervals. Radium and uranium are the best known and most expensive radioactive elements. The radioisotopes used in industry, however, are made from more common, less expensive elements, like carbon. Radioisotopes have been available to the public since 1946. Nearly 1,000 shipments per month leave the AEC laboratory at Oak Ridge, Tenn., for all parts of the United States and more than forty foreign nations. They cannot be used to make atom bombs, but their other feats of performance are just short of miraculous.

Because the radiation of an isotope can be traced, a sample of radioactive carbon, for instance,

can be inserted in any chemical compound containing carbon and be traced wherever it goes—whether it be in a quart of oil or inside the human body.

Gordon Molesworth, a former AEC staff member who is now in business for himself as an atomic industrial consultant, has said, "A radioisotope is like a reporter with a walkie-talkie telling the doctor or the scientist what is actually going on inside a chemical reaction. Thus, we are solving mysteries we have never been able to crack before."

Many small laboratories and industrial firms are already specializing in "radiation" products—some of them processing consumer goods through the use of radioisotope techniques, and others using radiation instruments in scientific and medical research.

ANOTHER valuable by-product of atomic energy is to be found in the residue, or ash, left after an atomic reaction takes place. This radioactive mixture must be stored with great care behind shields of lead or concrete, but the rays it emits can be directed to useful tasks like sterilizing food and drugs, preventing molds or acting as a catalyst to speed chemical reactions.

One of the most recent uses for radioactive mixtures was described to scientists attending the

International Congress on Nuclear Engineering at the University of Michigan last June. They heard colleagues describe a device that would pre-treat pork in meat-packing plants in order to eliminate trichinosis bacteria. In the field of human medicine, Tracerlab, Inc. has developed a machine called a tracer-scanner. The tracer-scanner can detect the radiation emitted by radioisotopes injected into the body in order to discover circulatory and glandular disorders.

Industrial companies are increasingly adopting radioactive tools for research and as instruments for production. These businesses put atomic tools to work inspecting metal sheets, boilers, pipelines and complex assemblies like proximity fuses. A unique atomic detector was used to examine the welded pipes in the atomic submarine, *Nautilus*, where leakage had to be limited to what would amount to one drop in 500 years! The Nuclear Research Corporation has just announced the development of its "Sardap" apparatus. The Sardap (a nickname for small-angle radiation detection and presentation) uses gamma rays from isotopes to spot abnormalities in metals.

Thus, the small companies making atomic tools and products have found a large and ready market for their goods. Whereas the AEC

used to be the biggest customer for companies which makes detection instruments, it now takes only about one-quarter of this industry's output, the remainder going to private entrepreneurs. Today, nearly eighty producers of atomic tools and machinery share in the \$30 million annual business that isotopes, alone, entail.

Tracerlab, Inc. is an example of one such enterprise. It was set up in Boston in 1946 under the aegis of a handful of scientists and engineers, some of whom had worked on the Manhattan Project, which led to the development of the atomic bomb. Tracerlab was one of the first companies to employ isotopes made available by the Oak Ridge laboratory. Its capital consisted of just a few thousand dollars raised from the savings of its founders and their friends. With this meager capital, but with a wealth of ingenuity, the men behind Tracerlab launched into the production of Geiger counters, meters and technical devices, and the processing of isotopes. The success story of this company can be traced through its sales figures. In 1946 total sales amounted to only \$30,339. Seven years later annual sales had grown to \$12.8 million.

The Nuclear Instrument Chemical Corporation has a similar history. It was founded in 1947 by a group of former Oak Ridge scien-

tists to make radiation-measuring equipment and to process radioactive materials. Today its annual sales are over \$1 million.

BUT WITH all their present success, raising money has been a thorny problem for many of the smaller companies venturing into the development of atomic tools. Some have been able to float public loans, but they have had to pay dearly for such capital. They have been forced to promise relatively high returns because of the pioneering nature of their business.

Charles Robbins, executive manager of Atomic Industrial Forum, Inc., an association of companies engaged in developing industrial uses for atomic energy, predicts that the recently passed law revising the Atomic Energy Act will ease the capital-raising problem: "Investors who have been reluctant to do much in a field so dominated by Government may gradually take a greater part in helping finance these growing companies."

If private entrepreneurs and investors seize this new opportunity that has grown out of the recent release of atomic energy for public and private use, it is likely that the more efficient of them will profit financially. The public will be rewarded also—with a whole new range of products and services keyed to the advancement of the health and comfort of society.■

The Export-Import Bank, which is supposed to ease the financial strains of two-way trade, is proving to be an agency for the one-way flow of American money

TWO-WAY BANK

by Herbert M. Bratter

THE MONTH which saw Congress lift the ceiling on the public debt ("temporarily" by \$6 billion above the former \$275-billion limit) was marked by the enactment of various changes relating to the Government's foreign trade bank. Both events are related, and their coincidence serves to point up the problems faced by any Administration which tries to keep the public finances sound and inflation under control.

The public debt limit has had to be raised because the Treasury cannot pay out of current tax revenues all the expenses incurred under Congressional appropriations. Additional interest-bearing obligations must be issued.

The Export-Import Bank legislation just passed increases the lending authority of that institution from \$4.5 billion to the present \$5 billion. When the "Eximbank" wants money to loan, it gets it from the Treasury. When and as the half billion increase is used, the Treasury will have to raise the money—even if this

means adding to the debt and unbalancing the Federal budget further. Through the operation of the Eximbank, in effect, deficits of foreign economies and governments tend to be put on the lap of our Secretary of the Treasury.

Hardly anyone remembers the start of the Eximbank back in early 1934, when the New Deal was young. It began as a mere \$11-million bank primarily for the purpose of financing trade with the newly recognized USSR. Thereafter, it continued growing until it attained its present giant dimensions. Despite its double-barrelled name, Eximbank has devoted the overwhelming majority of its loans to helping American exporters; and it is pressure from U. S. export interests that explains the recent legislation and the increasing activity of the bank.

One of the early actions of the Eisenhower Administration and its sound-money-minded Treasury Department in 1953 was to seek Congressional authority to bring

the Eximbank under closer Treasury control. When George M. Humphrey took over as Secretary of the Treasury (and became ex-officio chairman of a national council created in 1945 to coordinate the foreign monetary and financial activities of the U. S.), he found himself faced with a \$300-million *fait accompli* for which he would have to raise money through some means. This was in the form of a promise made to Brazil by the Truman Administration of an Eximbank loan in that amount to clear up the backlog of commercial and other dollar debts owed by Brazilians to American interests.

Some hectic conferring followed, all at the top level. Exporters put on the heat, and the Brazilian Government put pressure on the U. S. State Department. Aware of the fact that many American firms had sold goods to Brazil despite the tight dollar reserves of that country due to its reckless importing, Treasury officials tried to cut the demanded loan down to \$100 million. The effort failed. The Export-Import Bank announced that it was lending Brazil the \$300 million to pay off American businessmen.

That was in 1953. Since then

the Bank has postponed the loan's repayment terms. Brazil, still troubled by a dollar shortage, reportedly has begun negotiations for another loan of the same character.

The Administration's 1953 experience is sufficient to explain why Congress was asked to change the organization and power of the Eximbank. The bank at that time was managed by a board of directors and was part of a group constituting the National Advisory Council on International Monetary and Financial Problems. As such a member, the Bank participated not only in decisions affecting its own activities, but also the activities of other U. S. departments and agencies, including those of the International Monetary Fund and International Bank for Reconstruction and Development, better known as the World Bank.

WITHOUT objection from Congress, the President reorganized the Eximbank in 1953. Its board of directors was replaced by a managing director, a deputy and an assistant. At the same time the Bank was removed from membership in the NAC. These changes may have pleased the World Bank, coupled as they were with rumors that development lending by the Eximbank might be considerably curtailed. But the

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changes did not please those foreign borrowers who consider the World Bank too deliberate or exacting in its loan negotiation. Nor did they please the private business interests that gain by Eximbank lending to exporters and to foreign countries. Their discontent has resulted in this summer's Eximbank legislation, which expands the Bank's resources by \$500 million, gives the Bank another board of directors, restores its old place on the NAC and lays the groundwork for additional legislation in the future.

The Eximbank has been unmistakably told that Congress, or at least the Senate, expects it to be a great deal more active in extending credit than it has been in the recent past. Both Republicans and Democrats in the Senate have joined in this pressure. Those directing the campaign have known how to rally support from business and banking circles here and abroad. When hearings were started under the Capehart-Maybank resolution last year, a "citizens advisory committee" of about 130 members was named and visited the Capitol *en masse* to hear the chairman of the Senate Banking and Currency Committee outline the prospects.

THE behind-the-scenes clamor coincided with a slack period in American industry. It also co-

incided with the revival of competitive ability on the part of industrial nations overseas. Many of the present generation of export managers can remember nothing but a sellers' market and are not used to competition from Britain, West Europe or Japan. In his address to the opening meeting of the citizens advisory committee, Sen. Homer E. Capehart (R.-Ind.) said:

"Presently we find United States producers seeking markets for their production. . . . Labor . . . concerned about employment. . . . We have moved from a sellers' to a competitive buyers' market. . . . We have, through the years, by gifts and grants and by aid programs built up a healthy competition for ourselves. . . . While many of our neighbors still want our products they now want to buy them on their own credit terms. . . . We have to make it possible for them to buy by helping them with lengthy credit terms."

The Senator deplored the fact that the Eximbank held unused and unpledged \$1.3 billions of its lending capacity, a record which he regarded as inadequate.

In launching the movement to strengthen and enlarge the Eximbank, Sen. Capehart suggested that private investment resources of our "great banks, our insurance companies, our investment trusts, our many pension funds" should be tapped to finance expanding U. S. exports. The goal

was still "full employment," he declared.

With his Democratic colleague, the late Sen. Burnet R. Maybank of South Carolina, Sen. Capehart described the Eximbank program as being "trade, not aid."

ACTUALLY, the creation of export business financed by Uncle Sam's credit is less "trade, not aid," and more "trade through aid." During a period of economic recession, exports tend to support business activity in our economy. At other times, they may have an inflationary effect here. This is due to the fact that production of exportable goods so financed, whether they be locomotives or raw cotton, increases work and payrolls; but it does not correspondingly add to the supply of consumer goods on which such increased take-home pay may be spent.

What the British inventors of the slogan "trade, not aid" wanted was a better balance in the movement of goods across the ocean. They meant that the U. S. should buy more from them, thus providing the dollars they need to buy things from us, rather than putting them in a position where they would have to rely on grant and aid programs such as lend-lease, outright loans and the Marshall Plan.

In short, other nations would

prefer to see the United States stress imports, not exports.

The Export-Import Bank has had an excellent business record over the years. It has, under Congressional mandate at all times stressed the soundness of its loans except where it was acting as a mere agent for the Economic Cooperation Administration and the Foreign Operations Administration. As a result, the Bank's record has been extremely good; defaults have been few. Without criticizing past or present managements of the bank or detracting from their record, however, it is only common sense to note that while the Bank's debtors have been repaying loans, our Government has been pouring tens of billions of dollars into the outside world. It is therefore not particularly remarkable that the Bank's debtors, in both hemispheres, have generally found the means to service their loans, especially when they know that the Bank has many more millions available to lend.

Some critics say that the extra \$500 million now added to the Eximbank's resources is not really for use, but just a Good Neighbor attraction. Be that as it may, history emphatically suggests that eventually the money will be used. Congress has repeatedly watered the original \$11-million acorn with a fire hose.

Gen. Glen E. Edgerton, Eximbank's chief managing director, was instructed by Sen. Capehart: "... it is our intention as a result of this legislation . . . that you will make more good loans. . . . It is the intention of this Congress that you . . . be more active than you have been. . . ."

The Eximbank has been returned to its pre-1953 place in Washington official life—richer by \$500 million—even though President Eisenhower said that "experience has demonstrated" that the pre-1953 setup was not the most effective one. What all this amounts to is that the Administration has been forced by the Senate to beat a retreat from some proposed reforms.

Economic and related policies of the New Deal and Fair Deal, so often attacked before the Republican victory of 1952, are receiving endorsement under the Eisenhower Administration—not because the policies in question are right or wrong, good or bad, but because they reflect either the will of the majority of Americans or of minorities which can most effectively make themselves heard in Congress. The mercantilists of another century believed that it was good to import only specie and to export as many goods as possible. To the majority of Americans today, exports by any means appear to make employ-

ment and dollar incomes for those who produce them; hence, exports by any means are good.

The fact that exports on long-term credit may be inflationary at home; that the dollars received by producers for such exports either are raised by taxing the rest of us now or by interest-bearing public debt transactions to be paid later; that while exports temporarily may help to solve the dollar scarcity in other countries (which may have mismanaged their economies), they guarantee dollar scarcity abroad in years to come, unless through new giveaway programs we provide the dollars for the servicing of such credits—none of these facts deter those who have cotton, farm machinery, business equipment or transportation services to sell abroad.

It may be deplorable, but it is nonetheless true that in all walks of life large groups of the American electorate have come to look increasingly to the Government for support and security. These groups include farm organizations, labor unions, many manufacturers and businessmen. Few are above seeking aid through Governmental financing. As in the case of the Export-Import Bank, which grew from millions to billions, one cannot help but wonder when the need for such "props" will stop growing. ■

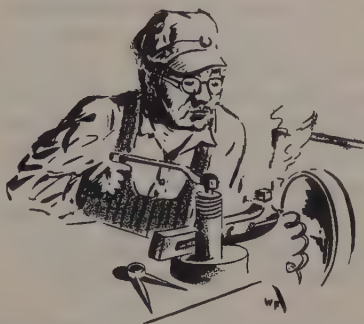
Free world industrialists unanimously agree that building a healthy relationship between a man and his job is as important as developing the techniques for greater productivity

Human Relations in Industry

by H. W. Prentis Jr.

THIS COUNTRY'S politics and economics, as well as what we are and what we do, depend on our philosophy—our way of life. It is a matter of history that as America gave birth to a new form of political society, our broadened visions of individual liberty gave rise to a new form of economy—one conducted on a much freer basis than were the traditional economies of Europe. Those distinctions between the United States and the Western European nations have persisted, although changing in form, until today.

Yet, with all this diversity of economic and political method—a diversity which has often caused suspicion and anxiety within the free-world alliance—some meeting points of purpose



were uncovered at the Second International Conference of Manufacturers held in Paris last spring.

More than 350 representatives of American and West European industries were in attendance, of the former some remaining all through the summer to continue informal conversations and the exchange of ideas with their European counterparts.

Although the Conference could not agree on what the proper economic climate should be for a flourishing economy—the disagreement being over the relative role of government in the economy—the representatives did agree that the economies of their nations should be directed toward the achievement of high productivity and steady growth. This goal, they felt, would benefit and

H. W. Prentis Jr., chairman of the board of Armstrong Cork Company, headed the 166-member American delegation at the Second International Conference of Manufacturers which was held in Paris last spring.

bolster the freedom and well-being of their people by raising living standards, while, at the same time, outstripping the Communist economic machine which strives for material wealth, a wealth never shared by the people who produce it. In a way, the conclusions of the Paris Conference point to a reaffirmation of the faith of the free world in the democratic principle that people—not totalitarian goals—are the key to our future.

YET IN the more industrialized and progressive nations, nations where individual freedom is given high priority, the problem of dealing with the individual has been complicated by the technological age. With the growth of industry there has been a tendency for the machine to dwarf the man. Machines characterize our age. They were created to raise our standard of living by increasing our productivity. But these rapid advances in technology have to be met with rapid strides in aiding individuals to maintain and increase their potentialities not only as producers but as human beings as well. The very complexities of modern industry have compounded the problem of dealing with the individual into the problem of human relations. As the delegates to the Paris Conference agreed, finding

ways to aid the individual in his job relations is just as challenging—and just as rewarding—as solving the technical problems of industry.

Whether in the United States or Britain, Germany or France, the pursuit of satisfactory human relations on the job is vitally connected with many facets of a worker's life. Today a man's job is the center of related activities. It involves more than a man's position *vis-a-vis* his employer or his co-workers. A worker's job and his attitudes toward it have important effects on his economic status, his political beliefs, his associations and his community behavior. On-the-job human relations mesh into a vast network of in-the-community relations. For this very reason, human relations experts in industry are attempting to develop employee attitudes in factory situations which will help the worker to handle other problems outside the factory. For, every step on the part of industry to adjust man-to-man relations must be geared to the role the worker will assume in the larger spheres of life—among his neighbors and fellow citizens.

The principles of good labor relations spelled out at the Second International Conference of Manufacturers were intentionally aimed at further developing the

worker as a secure individual—secure economically and secure in his relations with his fellow men. Such a worker is the very antithesis of the Communist laborer who must fear for his very existence and follow the dictates of men over whom he has no control whatever. The delegates from the free-world nations, even from those nations operating relatively rigid economic and political controls, formulated their proposals on the premise that good human relations in industry is a two-way endeavor—that a man's job relations vitally affect his spirit; and his spirit vitally affects the way he does his job.

IN MY opening address to the Conference, I was proud to point up how we have arrived at a sound solution to some of these problems in the United States: "We in the United States strive by every means to induce each worker to put forth his best effort voluntarily. We try to plan our production so that his self-interest and that of society are directed to a common goal. We not only teach but practice the importance and the sanctity of the individual. We have no class system. We care not who a man's father was. We care only who the man is, what he stands for and what products flow from his hand and mind. That competitive freedom of the indivi-

dual to advance to any height his energy and ability will take him is, in my opinion, the greatest single factor in the success of our economic system."

In line with this thinking, the delegates staked out some areas of human relations in industry where improvements and adjustments would help to make the individual more competent in dealing with the problems of this era.

Heading the list of principles was the growing need for enlarging the mindpower of today's worker. All over the world the need for trained and educated people is increasing by leaps and bounds. It is not enough that we have removed much of the hard physical work from industrial jobs; we must also learn to be masters of the technological improvements we have created. Complex machines and techniques call for people who are capable of understanding and operating them. Industry, the Conference agreed, must promote the training of employees in and out of the plant—employees from both production and management. Not only can business help employees to earn a better living from increased skills, but it can also help them to learn to apply the principle of freedom of enterprise—that constant striving toward new goals and horizons, using initiative to improve their lives. Indus-

try must place new stress on the role of schools and colleges in doing this job of mass education.

EQUAL emphasis was put by the Conference on two-way communication between workers and management. This, it was felt, would lead to greater understanding of the problems that each face individually and those they face mutually. One result that this effort might achieve is the wider utilization of employee suggestions for increased operating efficiency, which would lead both to lowered costs and better working conditions. The delegates stressed that the maintenance of management authority in the operation of industry was essential, but they welcomed, in fact urged, the participation of workers in advancing ideas on how improvement might be brought about. This type of cooperation on the job would make for better relations all around.

Very strongly linked to this spirit of cooperation is the recognition that we must continue to treat the worker with dignity. We are now a long way from employment practices which make the employee's job a subject of the boss' whim. Management has assumed a greater responsibility for keeping the worker on the job and for treating him with respect for his skill. The dele-

gates also placed renewed emphasis on the need for maintaining pension and benefit plans to aid workers who are forcibly retired, either permanently or temporarily, from their jobs. This furthers the responsibility of management for the individual who has earned the right to security. Management is taking every step—on its own—to insure the security of the individual's job by trying to stabilize employment and avoiding even temporary layoffs. The delegates had various opinions about whether their governments were partially or totally responsible for the maintenance of this full-employment situation; but they were in agreement that it is an essential plank in any program of good human relations.

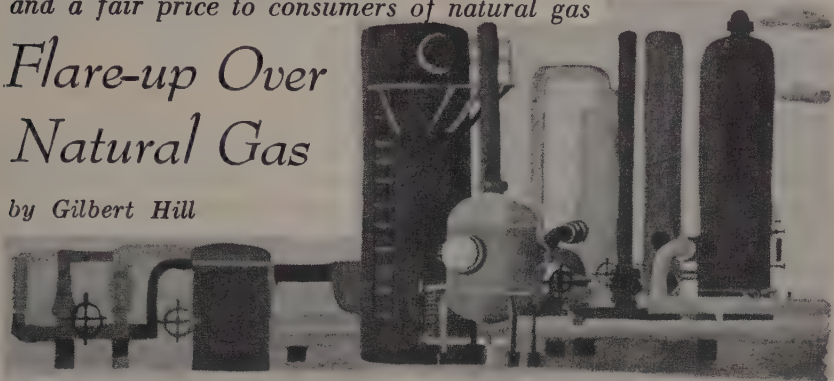
Perhaps we Americans are as familiar with these principles of good human relations as we are with the benefits that industry can bestow on the entire nation by raising productivity and living standards. Yet we are not very much aware of the accord which has developed over these principles among our friends abroad.

This renewed interest in human relations in industry by the free-world nations demonstrates the belief, shared by those who remain free from an absolute controlling hand, that good human relations in and out of industry is a real bulwark of freedom. ■

A conflict is looming between state and Federal agencies—if they cannot agree on what constitutes a fair rate of return to producers and a fair price to consumers of natural gas

Flare-up Over Natural Gas

by Gilbert Hill



FROM AN AIRLINER roaring north over the Red River between Dallas and Oklahoma City, you can easily see what at first look like huge hay barns on fire, billowing red flames and lighting up the countryside for miles.

But the pilot knows they are "only gas flares"—huge torches strung out one after another for nearly 100 miles in the Oklahoma oil fields, destroying natural gas, wasting the same kind of fuel which costs you plenty for use in your kitchen range or for the fire beneath your factory boiler.

They burn night and day and are so permanent that the pilot needs neither radar nor airplane beacons to know his exact location.

Gilbert Hill, special writer on The Daily Oklahoman-Oklahoma City Times, gives most of his attention to agriculture, business and science

Gas lights the way. But, unfortunately, the fires fail to shed much light on one of the hottest controversies in years involving state and Federal rights.

The lid blew off the long-smoldering gas fight on June 7, in a fairly simple decision of the United States Supreme Court involving the Phillips Petroleum Company. The Court ruled that the Federal Power Commission has the duty, under the Natural Gas Control Act of 1938, to regulate rates for natural gas at the source—where it is produced or gathered.

The decision reversed the Federal Power Commission itself, which had ruled that it had no such authority and could regulate rates only *after* the gas had been sold *in interstate commerce*.

The case was pushed, and won,

largely by a group of cities which only recently have become consumers of natural gas out of new pipelines built during, and after, World War II.

On the surface, therefore, it looks like a fight between a new crop of consumers who want lower prices and producers who feel higher prices are justified in view of increasing demand and the need to expand facilities. But it is a much more complicated and important problem than just prices.

Natural gas is a by-product, generally, of oil production. Most of it actually comes out of the same well as oil. Gas provides the "lifting power" which throws petroleum over the derrick in gushers. Even more important, it drives petroleum out of the pores of the sand from the depths of the earth, bringing it within the reach of pumps. Then the gas comes up with the oil.

AT TIMES gas has been discovered by men who were drilling for oil and found only a gas field—leaving the oil people with a feeling akin to that of the father who wanted a boy and got a girl.

Natural gas is cheap in the great Southwest. It has been considered so worthless in the past that it didn't pay to build the pipelines to "gather" it, particularly in oil fields remote from

larger cities. Once gas served its purpose to "lift" the oil, most oil companies would rather "vent it"—pipe it a little way off the ground, light a match to it, and let the torch destroy the "fire hazard."

Many companies did this until just a few years ago. Scores do yet, despite every effort of the industry and of state officials to conserve a great natural resource.

Few people—even those who live in the oil fields—know that only about one-fourth of the oil in any pool ever reaches the surface. Experts know that gushers (too rapid a recovery of oil) destroy the gas pressure and reduce the amount of oil that can be surfaced. The oil that stays underground is lost forever.

Engineers have worked for years to try to recover more oil, sometimes by pumping natural gas back into wells at the edge of the field and using it a second time to push the petroleum within reach of the pumps in the center of the field.

State conservation authorities, therefore, have long recognized that *control of gas controls an oil field*.

When the Oklahoma Corporation Commission, for instance, rules that gas cannot be "vented" or burned in a new field, that ruling shuts down oil production there until a new pipeline can be built

to "gather" the gas. When it limits gas production to what can be sold at a specific price, then that, too, limits oil production.

OIL companies often will build the lines, even at a loss, to gather the gas so that they will be allowed to produce the more valuable oil for gasoline, fuel and other petroleum products.

As a result, Southwesterners have enjoyed cheap fuel for years. Cities which often have rather cool temperatures in winter are virtually smokeless because gas is used for heat, for cooking and for industry. Gas has been so plentiful that huge coal deposits in southeast Oklahoma are virtually ignored.

Gas has been made plentiful, at least partially, because of state conservation practices, which include setting prices *high enough* to justify pipeline construction and operation. Now price policies raise the interesting possibility of a direct conflict between state and Federal power policies.

The Oklahoma Corporation Commission, for instance, has set the minimum price for which gas *can be produced* in that state at 9.8262 cents per thousand cubic feet. Its power to set prices has been upheld by a United States Circuit Court of Appeals, which ruled that the *state* could set prices for conservation purposes.

Now what happens, attorneys are wondering, if the Federal Power Commission and the Oklahoma Corporation Commission, both supported by Federal court decisions, fail to see eye to eye on prices? Which consideration will win out: the need for protecting a natural resource, or demands of voters in cities for lower gas prices?

Up until the recent Supreme Court decision, such conflicts were avoided by an assumed, and quite understandable, definition of *when* natural gas became a commercial product, ready to be delivered safely under your house and into your cookstove.

Five Justices of the United States Supreme Court have now ruled that *under present law* Federal controls begin at "all wholesales of natural gas in interstate commerce." That would include, of course, that first sale at the wellhead and all others, which, the Court said, had been the clear intent of Congress no matter what custom had developed.

The decision has brought quick complications in the gas business. And more are in the making.

For instance, profits from gas *transportation*, with the gas sold in new areas at prices which were soon to be disputed, looked so good at first that most of the new pipelines are amortized to pay off their bonds in twenty years. That

means that "time payments" to creditors are huge every year—fixed by contracts always recognized by Government rate-regulating bodies.

Thus, any effort to reduce natural gas prices for the new consumers cannot be passed on to the pipelines. It must go back to the source of the gas—the producer.

Regulation will be a huge job. While there are only a few interstate pipelines, there may be as many as 14,000 "gas producers" in the broad new meaning of the word. Many never before thought of themselves as being in the gas business. They produced oil, saved all the petroleum they could, and then unloaded the gas on anyone who wanted to buy it and worry about further processing to make it a commercial product. Barring this happy arrangement, the gas was burned to eliminate the hazard.

Many other "gas producers," under the new decision, are big oil firms like Phillips, which, heretofore, could take a loss on natural gas for conservation reasons—and still show a profit by turning gas into lamp black, urea for livestock feed or chemical fertilizers, selling only the surplus to interstate companies.

First result, then—if the law isn't changed by Congress, as many predict—will be a separa-

tion of "gas operations" from the oil companies.

New "gas companies," owned by the same stockholders as the "oil companies," will bloom all over the place. And that blooming could be very expensive to all gas consumers!

Here is how it would work. Each gas company, no longer a "loss operation" of a big parent oil company, could appear before the Federal Power Commission with accurate figures as to its costs, profits and assets. Almost *any* "gas operation" could, oilmen believe, justify a much higher price at the wellhead than is now being paid for gas.

Hearings would be different for each firm. Some would last weeks. The Federal Power Commission already is asking for more tax money to conduct its work. There can be no general rulings because of the wide differences in the types of "producers" or "gatherers" of gas, many of whom would still be, primarily, oil producers.

If the price advances are not allowed, then the most dangerous possibility is that consumers trying to beat down prices may find themselves without gas.

NEW fields must be opened constantly as old ones die. There is no law which says a company *must* build a pipeline to a new

source of gas, if it will lose money in the process.

There is no legal requirement that a state corporation commission *must* stop the production of oil, if a Federal agency sets a gas price too low to justify saving it.

The tendency could be to "vent" more gas and burn it in the fields. And, if gas supplies for sale should decline, certainly the least profitable customer, the one at a great distance with big transportation costs, would be cut off first.

ACTUALLY, the biggest fear in the oil country is that the progress toward real oil-gas conservation will be halted by Federal versus state conflict over gas control. There could be (1) a struggle to resolve the problem by putting the entire oil industry under Federal rule; or (2) return to wasteful dog-eat-dog competition in oil production, thus seriously damaging the nation's petroleum reserves; or (3) new Federal laws and rulings to bring some balance into the whole controversy.

The big problem, actually, is to adapt the needs of conservation to the economic realities of gas production. No one believes the states have yet solved that prob-

lem, but they are making progress. It is to be hoped that the Federal Power Commission is not too hasty when it begins to exercise its newly acquired authority. There is much more to the gas controversy than a determination of how expensive or how cheap natural gas should be when it finally reaches the consumer.

When the gas controversy first began to bubble a few years ago, Congress approved a bill that left the power to regulate the gas industry to the states—with prices becoming a Federal matter only when gas entered interstate commerce. The bill would have left the situation exactly as it was prior to the June 7 decision, but it was vetoed by former President Harry S. Truman.

New bills already are being drawn to carry out the same idea. Others undoubtedly will try to bolster the position of the United States Supreme Court.

We can only trust that those who are in a position to decide or legislate on the natural gas problem will be able to leave America with a fair balance of Federal rights and state rights, while protecting the best long-range interests of both producers and consumers. ■

ASIA AND AFRICA, with more than 60 percent of the world's population, produce only a little more than 30 percent of the total value of the world's agricultural output.—*Twentieth Century Fund*

Modern philanthropy, with its emphasis on fund-raising drives, has become an industry which needs the willing leadership and services of the best men from the business world

PHILANTHROPY NEEDS LEADERSHIP

by Arthur F. Douglas

AMERICA'S VAST NETWORK of privately supported welfare, educational and cultural institutions, as characteristic of our way of life as the town meeting, today faces a serious peril. Business, industry and community leaders are showing an increasing reluctance to direct the fund-raising activities of the voluntary organizations. This paucity of leadership comes when it is most needed—at a time when the agencies face more and more difficult and complex problems.

The more patent of these are inflation, the growing complexity of social and technical problems, and the general lack of adequate public support. The renowned "high cost of living" is not reflected only in personal or family budgets. Every charitable agency and educational and cultural institution faces staggering increases in operating expenses. This comes at a time when the social and economic tensions of a quasi-war economy are at a peak

and significant advances in technical and health research cry out for further explorations. On top of these problems is a general lack of adequate financial support from the public. Total contributions over the years have increased, and increased greatly, but rising costs have outdistanced them.

Just as the problem of the privately supported agencies has many facets, so has its solution. But fund-raisers and agency heads agree that close to the root of the solution is the question of leadership. In philanthropy's \$4-billion industry there is a dwindling pool of capable leadership to run the fund-raising campaigns which give the agencies their life.

As recently as a few decades ago, private philanthropy was a vineyard worked by a wealthy few. Men and women of colossal wealth, the Rockefellers, the Carnegies, the Jacob Schiffs, et al., almost single-handedly supported many of our greatest educational,

cultural and social organizations.

The Mr. Big of American philanthropy—1954 style—is the so-called “little man.” Either by himself, or through the corporation where he works or in which he owns stock, he gives the dollars that spin the wheels of American private welfare. The drastic redistribution of the national wealth has sired the fund-raising campaign, the highly organized, precision-timed appeal for the dollars of tens of thousands of donors.

Topping the list of elements necessary for success in such campaigns is “good leadership.” Leadership may be defined as the service of men and women, both lay and professional, who come from the business, political or social community to lend their ability, influence and support to the direction of the campaign.

The real root of the problem is the apathy which businessmen today, with few notable exceptions, feel towards leadership. Here I may speak from personal experience, because until recently, I shared their lack of interest. My

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reasons for reluctance, I believe, were those of the average businessman today.

First, I failed to realize the importance of leadership. I knew someone had to handle the reins, but certainly not I. That was a job for a professional fund-raiser or some starry-eyed volunteer. Then, too, I was convinced that my business was a full-time-plus job. My mind was too full of business matters to have any room for the new and unfamiliar problems of raising money.

TO THESE two basic excuses, I added a good many others to rationalize my refusal. One of these, which I, of course, never stated publicly, was that I saw no gain for me or my business. I asked the very human question, “What's in it for me?”

Campaign leadership, instead of the ordeal I imagined, has turned out to be one of the most rewarding experiences of both my personal and business life. All my objections, real or fancied, proved invalid. In their place has come a list of benefits, tangible and intangible, which can only be called “the rewards of leadership.”

I found a very definite inter-relationship between business and campaign management. Campaigning for funds offers another variation of the basic principle of

buy-and-sell. With the donor's dollar you buy the best possible service for the community and then turn around and sell that service to the donor in a succeeding campaign. Because the privately supported agencies and institutions serve the public, their books and policies are always open to public review. They cannot hide sloppy management.

We all appreciate the tremendous gains American philanthropy is carving out. The recent announcements about the new polio vaccine, the steady progress toward the long-sought cure for cancer and the tremendous strides in heart research, with which I am now more familiar, are all very significant achievements. One day, singly or in sum, these and many other like achievements may alter the entire course of history for our planet.

The rewards of leadership have their price. Real, honest work is needed. Philanthropy needs more than names on letterheads, less of men who pay mere lip service. Leo Durocher's ideal is a man "who comes to play." Leadership's ideal is a man who comes to work.

The reluctant businessman is not the sole villain of the modern tragedy of inadequate leadership. The private agencies and institutions themselves have strong supporting roles. Time to a businessman is money indeed. Too many

agencies do not seem to care how they spend it. And as a burnt child fears fire, so does an abused chairman fear leadership.

A good example is the experience of the head of a multi-million-dollar manufacturing concern. He accepted a post with his old prep school which was badly in need of capital gifts. The first meeting he was able to attend was devoted to the study of the serious question of whether the boys should be allowed two showers a day. He never went back.

There is no easy solution to philanthropy's problem of leadership. But there is good reason for hope. Many big corporations, utilities, banks and leaders in other industries are now urging their executives to take an active part in community philanthropic enterprises. They realize the value to America of its heritage of private welfare and they realize, too, the role of leadership in the preservation of this heritage. But until the day when community leadership becomes standard practice for all young business and professional men, the job is up to the individuals.

Here is an opportunity to do a job that needs doing. It is a chance to test whether we have in us the "potentiality of great achievement." Leadership's ultimate achievement can be a better world for all of us. ■

That Brazilian frost, which supposedly caused a coffee shortage, now appears to be a minor incident in a complicated drama of marketing and monetary controls

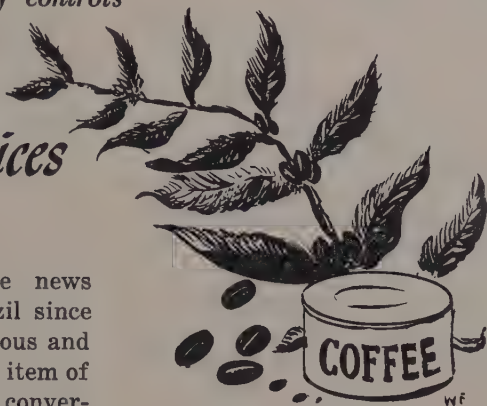
Coffee Nerves and High Prices

by Helen Hill Miller

WHILE MOST of the news coming out of Brazil since August has been of a serious and worrisome nature, the one item of good news that became a conversation piece at the breakfast table in every North American home was the break in coffee prices.

Just a few months earlier the people of the United States were chuckling over the wry humor of a newspaper cartoon which showed a husky truckdriver entering a roadside diner and demanding, "Tea and crumpets!" This cartoon expressed the reluctant but inevitable reaction among North American coffee drinkers. The reaction was inevitable because coffee prices were too high—and going higher. It was reluctant because we drink more coffee than anybody else in the world. Al-

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though the good, five-cent cigar had long been recognized as a need the country might never see fulfilled, the good, five-cent cup of coffee had been a steady (and steadying) reality people had come to count upon. Its disappearance was hard to take—but not as hard as what was happening to coffee prices.

But all this has changed now. Fortunately for American coffee nerves (North and South), the drop in prices to a more nearly "normal" level will keep many of us from making a drastic change to tea and crumpets.

This favorable turn of events has been ascribed to a shift in policy on the part of the Brazilian Government. More explicitly, Brazilian exporters of coffee are now allowed to get more domestic

cruzeiros for their dollars than previously had been the case. This makes it possible for exporters to sell the coffee beans at a lower price to U.S. importers.

THIS latest development probably raises more questions than it answers, for it bears little relation to the reasons previously given the public as to why coffee prices went up in the first place. Is it possible that one set of factors caused a rise in prices and another set, totally unrelated, brought about a decline? The answer is, definitely, "No!"

By December, 1953, the American public had begun to get the idea that there was something unusual about the way coffee prices were moving upward. The pressure of curiosity as to what was amiss reached the American Congress and even the President's desk. The coffee industry hastily invited a delegation of American housewives to take a trip to Brazil (expense-free, of course) to see firsthand the extent of the damage to the coffee crop wrought by an unusual frost in July, 1953. This frost-damage theory convinced the junketing housewives, but others with greater insight felt it would be worth the efforts of more seasoned investigators to thaw out the truth. The Federal Trade Commission, ordered to look into the matter, finally came

up with a report on July 29. Its recommendations included suggestions for Congressional legislation in the next session.

According to the FTC, the coffee price spiral of 1953-54 "cannot be explained in terms of the competitive laws of supply and demand." Neither, apparently, could it be explained by pointing to a frost which struck only one corner of one of several coffee producing provinces of Brazil. Coffee traders, importers and large roasters came in for their lumps when the Commission turned up what it considered to be evidence of harmful speculation by both Brazilian and American firms, as well as excessive buying for inventory. Some "standard" practices among coffee brokers and other "irregularities" were also believed to have contributed to the price rise.

THESE FINDINGS of the FTC, which might lead to further Congressional hearings during the next session, have been vigorously termed a "smear" by the New York Coffee and Sugar Exchange. Thus the coffee price situation has brewed itself into a series of accusations and denials, and none of them relate to the action taken by the Brazilian Government in August which actually did bring down the price of coffee.

In order to get the full picture,

then, we must consider the actual effect of the historic frost, the supply-and-demand situation of coffee and the financial problems of the Brazilian Government. Throughout this picture we can discern a thread of circumstances which encouraged Brazilians to help coffee prices go up.

WITH more truth than grammar, the FTC report described the effects of the frost damage as follows: "This damage was as—perhaps more—important psychologically than materially." Inadequate communications between coffee-growing areas and coastal ports caused enough confusion to upset the market price—even if there had been no other factors at work. In the ensuing months, as the size of the crop became better known, it developed that heavy yields from undamaged trees outbalanced much of the harm wrought by the frost. But by then the profit-in-coffee fever had spread throughout the Brazilian coffee industry.

The psychology of scarcity that fed upon the uncertain news of frost would not have led to a price spiral if the history of supply and demand in coffee had been less checkered. The FTC report passes by this situation somewhat lightly. The feast-and-famine conditions with which American farmers are familiar have been equally famil-

iar to the Brazilian coffee growers. During the 1930s the slaughter of little pigs in the United States was accompanied by coffee bonfires in Brazil. Even after the war, supplies kept ahead of demand. Carryovers at the start of the 1947-48 season added up to more than 17 million bags piled up in Brazilian warehouses.

Then suddenly the situation reversed itself and demand began to exceed production. Brazilians started to tap their reserves of coffee. When the frost hit in July, 1953, reserves had shrunk to six million bags. Meanwhile, U. S. consumption had risen to all-time highs. Everyone concerned with coffee production and marketing was ready to make a good profit while the going was good. Under such circumstances it is easy to understand why importers were desirous of acquiring a "long position" when news of a frost got around. The speculation and building up of inventory which followed caused the price of coffee to advance at a rapid rate.

THE Brazilian Government's enthusiasm for a rise in coffee prices, especially in the dollar market of the United States, is likewise easy to understand.

For the past several years Brazil has been piling up fantastic dollar and sterling deficits. She was bailed out in 1953 from

this unfavorable exchange position with a \$300-million loan from the U.S. Export-Import Bank. The Brazilian Government's own efforts to balance its international accounts by means of monetary exchange-rate regulations and other controls played a leading role in the coffee drama.

IN 1951, when it was apparent that the demand for coffee was beginning to run ahead of production (not supply), the Brazilian Government instituted a minimum export price for Santos #4 coffee, the grade which makes up most of the export to the U.S. The price was set at 52¾ cents per pound. In this way, the Brazilian Government hoped to guarantee itself a good dollar price on every pound of coffee. It was an excellent move from the government's point of view, especially since all exporters are required to convert their receipts at an official rate of about 23 cruzieros per dollar—as compared to the free market rate of 63 to the dollar. Needless to say, exporters had to accept the government's rate. Thus the stage was set for the government to skim the cream off the coffee trade with the United States.

The coffee price spiral was touched off in December 1953, five months after the frost, when the Brazilian Government took an-

other precipitous step in an effort to get even more dollars. The \$300-million loan from the Export-Import Bank did not go very far. This time the government suddenly raised its interest rates on loans extended to finance the storage of coffee. This example set by the government automatically moved up coffee prices at every stage from grower to distributor. The New York wholesale price of coffee, which had been fluctuating near the 52¾ cent minimum export price, rocketed under pressure of encouragement from Rio. In May of 1954 the Brazilian Government tried to catch up with the new market prices by announcing that as of July the minimum export price would be 87 cents per pound. In other words, the hope was to hold on to the sizable dollar advantage already acquired. This move encouraged even further rises, and eventually proved to be a bad mistake.

IN PURSUING its own ends, the Brazilian Government overestimated its margin for action. The American coffee drinker proved unwilling to pay through the cup for Brazil's dollar deficits. Brazil's exports of coffee to the United States began to fall off markedly, stocks began to pile up and the end result was a major financial loss to the Brazilian Government,

to say nothing of the loss to Brazilian coffee interests.

In order to get coffee moving again as the new season's supply flowed coastward, the government decided in August to loosen its currency exchange restrictions and thereby encourage exporters to lower prices. Instead of exporters exchanging all of their dollars at the government's specified rate, the new regulations required that only 80 percent of dollar receipts be so exchanged. The remainder could be converted at the going rate on the free market, which yields almost three times as many cruzeiros.

This switch in policy did not win the uniform approval of Brazilians by any means. It has been criticized as being an unwarranted concession to American interests and as having an inflationary influence on Brazil's currency—which it does. Undoubtedly the effect is the same as devaluing the currency. But it is difficult to see what else the Brazilian Government could have done so long as a rigid policy of government intervention is to be persistently followed.

Which way coffee prices will go next is difficult to ascertain. For the moment Brazil still occupies a commanding position among world coffee exporters. She still supplies 45 percent of the world crop, but this does not compare

too favorably with the 61 percent of the world total she provided in the prewar years. Other areas are definitely cutting into the coffee business. It is possible that another repetition of the 1953-54 experiment will price Brazil's coffee right out of the market.

IN THE meantime, the demand for coffee will continue to increase. It has been estimated that by 1975 the coffee requirements of the United States may very well be close to 3.8 billion pounds per year—an increase of 50 percent over present levels.

Recent experience has shown that world production of coffee has a tendency to fall short of demand. High pressure research, however, has hardly begun to be applied to coffee growing. Thus, the point at which increased yields can meet the increasing thirst, and thereby establish the price of coffee, is in doubt.

Furthermore, since government intervention and consequent private speculation could continue to play an important role in the coffee economy, the number of theoretical slips between the cup and the lip is very considerable. On these, as well as on what classical economists like to term "basic conditions" of supply and demand, will depend the price that we shall have to pay for the cup of coffee of the future. ■

Every growing society needs enterprisers who are willing to promote the adoption of new ideas, techniques and inventions—despite economic risk, popular prejudice and social onus

ENTERPRISERS ARE MAVERICKS

by David McCord Wright

ONE OF THE most popular and most mistaken ideas in modern thought is the notion that scientific discoveries somehow introduce themselves. It seems often supposed that, once an idea has taken shape in the brain of a scientist or been discovered in his laboratory, that idea will automatically be put to practical use without anything more than a routine action being necessary. This belief that science somehow puts *itself* to work is entirely mistaken, no matter what sort of a social system we are dealing with. For, just as books left to themselves have no power to get themselves read unless some human being comes along to read them, so also scientific ideas and scientific discoveries require special effort before they are given practical use. . . . There are many obstacles to be overcome.

. . . First of all there is always simple stupidity or ignorance, but that is only a small part of the trouble. Far more important is the ingrained dislike which a large

proportion of the human race seems to have for new ideas, or for ideas which disturb the regular patterns of their lives. Men's minds have a tendency to become "set," and the man who tries to disturb the favorite ideas of others will often receive little mercy from the people he wants to stimulate. You would think that in the case of a scientific discovery all that would be needed would be an opportunity to perform the experiment that would test your idea. But frequently on one pretext or another even the chance to *show* that one is right is denied. . . . In such instances it may usually be said that the opponent has already become worried that the new notion is probably correct, and is unwilling to allow an experiment because he is consciously or unconsciously afraid that it will succeed and thus deprive him of "face" and hurt his ego.

Obstacles to change, however, are not only of so subtle and psychological a type. A man's direct

financial interests may be involved. And because, under capitalism, a man often loses money as the result of change, many people jump to the conclusion that the fear of losing money is the *only* source of selfishness and opposition to change, and that the abolition of private property would abolish all pressure groups. Unfortunately, however, as soon as we really begin to study social psychology, we will find that there are many other forces which might lead a man to try to stop expansion even if (to put the case as strongly as possible) everyone got the same money income, and all society were entirely planned. . . .

The trouble is that the process of raising *total* output always involves change. There are two reasons why change is always involved. First of all, on the production side, if we want to make a plant twice as big as it was before, to give it twice as big an output, we can't just take a drawing of the old plant, multiply every dimension by two, and expect an efficient result. No indeed. The whole plant must be *redesigned* As the sizes of different parts of a machine or building

or boat are changed, the balance of forces is changed and so are all the relative stresses and strains. . . . In technical economic language what we are saying is that we do not live in a world of "constant returns to scale." Increases in mere size induce important changes in *relative* force and efficiency.

. . . But in addition to the type of redesigning needed in any case and without new inventions, it is an observed fact that without *new* discovery, and *new* advances in technique, the process of growth will become progressively more difficult.

. . . The same thing is also true when a rise in consumption is involved. If people become better off, they do not simply continue to buy more of the same things. . . . The man who has lived in one small house will not simply try to live in two small houses. He is apt to buy or build an entirely different house—one which seems to him more beautiful or more convenient. Thus, as total output rises, the pattern of wants shifts. Many "luxuries" become "necessities," and former necessities disappear altogether.

Excerpted from *A Key to Modern Economics*, by David McCord Wright, Professor of Economics at the University of Virginia. Copyright 1954 by The Macmillan Company, New York. With their permission.

THUS it is easy to understand that with wants constantly changing and production methods constantly changing—as must occur if there is to be growth—the proc-

ess of total expansion *must* involve a constant reorganization and redirection of industry.

... Some people, however, would argue that while admittedly this shifting around and retraining would be necessary in *any* growing system, the shifting and retraining would not bother anyone if everybody got the same income. Everyone would know, they would say, that the only way each man could be better off, personally, would be by increasing the *total* product. And since no one would suffer a *loss* of income because of change, and everyone would benefit from the increase the change made possible, why everyone would be only too glad to make way for change. . . .

Plausible as [this] explanation sounds, however, it is mistaken, and the mistake comes from too narrow a view of human nature. . . . Some of you may have heard the expression "economic man." . . . An economic man is often thought of as a fellow who is totally uninterested in anything except doing as much loafing and as much "consuming"—that is spending his income on personal gratification—as he can manage. He hates work and his aim in life is to give as little work in exchange for as much income as he finds possible. It follows that, as long as he gets the same salary (properly adjusted for price

changes, of course), it would make no difference to him whether he were a truck driver rather than a college professor; or whether he lived in Pittsburgh rather than Los Angeles.

Only a little thought will show how wrong this idea is for many people. . . . Any realistic social psychology forces us to realize that, even under a Socialist state with equal income, many men would come to have a special fondness for certain jobs, certain towns, certain scenery, certain teams of workmates, certain friends, and that they would resent a disturbance of all these habits and ways of living.

YET THE industrial reorganization . . . necessary for growing output involves precisely such disturbances. . . . Economists have found, therefore, that a special name is needed for the type of man who is willing to make the special effort and undergo the frequent social onus and difficulties involved (under any system) in putting across a new social or technological idea. Such men economists call "enterprisers" or "entrepreneurs," though the word "promote" in ordinary language comes close to meaning the same thing. . . . *Anyone* in *any* type of society who gets put into practice a new technical, artistic, or social program we will call an enter-

priser. Viewed by this definition, Stalin and Lenin were enterprisers; and, indeed, Josef Stalin, no less than Henry Ford, becomes one of the most remarkable entrepreneurs of social history.

FURTHERMORE, just as all enterprisers do not have to be businessmen, so also all businessmen are not necessarily enterprisers. . . . The late Professor Joseph E. Schumpeter in his *Theory of Economic Development* . . . draws a sharp distinction between "managers" on the one hand and "enterprisers" on the other. A manager, to him, is an official or leader, in any society, who makes his decisions on routine lines, and operates within the limits of established ideas and technology. Such a man may have a great deal of power, for the distinction is not one concerning his legal rights or official position. The only things

a manager cannot do, and still be called a manager under our definition, is to explore *new* paths or to revise the general framework of ideas and policies within which he is operating. When he does that we call him an enterpriser; and unless a social system, whatever its name, manages to contain within itself a certain number of enterprisers, it cannot hope for the continued introduction of new ideas.

Yet we have already seen that . . . progress comes through change, and change is not automatic. Unless, therefore, there are individuals who are able to see the possibilities around them and willing to put them across, the ideas of the scientist and the philosopher will remain forever sterile. After all, historians tell us that the Greek philosophers were quite familiar with the steam engine as an amusing toy.■



India's First Five Year Plan

A PRIME OBJECTIVE of India's first five year plan is to double per capita income as quickly as possible; this could demand a rate of capital investment of from 15 to 20 percent of annual national income. "For democratic planning to succeed, it will have to energize the entire community and to place before it a goal of endeavour which will call forth all its latent creative urges. The crucial factor here is leadership, not merely leadership at the top but at all levels."— from *A Summary of the First Five Year Plan*, issued by the Planning Commission of the Government of India.

How a product is wrapped, boxed or generally "packaged" often determines whether you will buy, how much you will buy—even which brand you will choose

Packaged for Quick Sale



THE NEXT TIME you return from your neighborhood supermarket or local grocer, take a good look at the items that come out of your shopping basket. You will find that nearly everything you bought—which you took off the shelf yourself—is individually boxed or wrapped, decorated in attractive (or at least noticeable) colors—complete with trade-marks on the front side and recipes, directions, etc., on the back. Moreover, you probably will not think it is in the least unusual that the items you have purchased are “packaged” in such a fashion.

Yet, it was not always like this. Not too long ago supermarkets were virtually unknown. Your grocer’s shelves were filled mostly with unmarked products, many of them stored in bulk. What happened when you went to your grocer’s was that you read from your shopping list—a list which you had prepared beforehand of the items you wished to buy. You

ordered a half-pound of butter or a pound of sugar, and the grocer would cut the butter and ladle out the sugar. Then he would put everything into brown paper bags and ask you “anything else?” Having exhausted your shopping list, chances are that you would be unable to think of anything else you wanted to purchase. Much of the merchandise in the store was hidden from view anyway, and the goods on the open shelves were undistinguishable, drab-looking and altogether lacking in eye appeal. Perhaps the flavorful aroma from the pickle barrel might entice you into one more purchase, but that is as far as impulse would carry you. Besides, your grocer did not really expect you to stray too far from your list. He was merely being courteous when he asked “anything else?” Impulse buying meant nothing to him.

Today, the little “extras” you buy, without any previous planning, have become the most im-

portant part of the average retailer's business—the part he counts on to make a profit.

A recent survey of buying habits among supermarket shoppers, conducted by Du Pont, reveals that 48 percent of all purchases are made on "impulse." The same study also reveals that more than 60 percent of shoppers no longer carry a shopping list—and those who do will not allow themselves to be bound by it.

The Du Pont study, one of the most comprehensive surveys of its kind, merely confirmed what retailers have long suspected: that the average shopper actually wants some direction as to what to buy. The housewife (or her helpmate) wants to do her shopping quickly; and she wants to learn about a product she might buy with a minimum of effort. She also wants everything to be in a handy package, in sizes that she can use and in shapes that are easily stored. Finally, although today's shopper is exceedingly rational about price and quality, she responds to the nonrational appeals to her senses of sight, touch, and even smell.

It is in response to these reactions and wants of the average shopper that the consumer packaging industry has grown. There is hardly a consumer item today, from turkey dinners to toothbrushes, that does not come in a

specially designed package. In many instances, indeed, the package is really more expensive than the product. Thus, Dr. Laurence V. Burton, executive director of the Packaging Institute, estimates that "eighty-seven percent of the direct labor of the average consumer goods industry is packaging." More than half of the total cost of cosmetic and drug items goes into the package. All in all, it has been estimated that producers and manufacturers now spend about \$14 billion a year on packaging.

Most retailers are convinced that this is money well spent. In the modern, self-service supermarket, they will tell you, the package takes over the job of the sales clerk. A good package gives the kind of information about a product which, according to tests, a shopper wants—and it does this quickly, with a maximum of psychological effectiveness. Either directly, by means of advertising copy, or indirectly, by means of attractive typeface, color, texture, shape, etc., the package attempts to make the product irresistible.

PACKAGE designing has become a highly technical field, requiring the services of engineers, artists, economists, psychologists, copywriters, etc. A good package is attractive, or functional, or such a novelty that it will sell the prod-

uct. It may possess all three qualities. The point is to increase unit sales.

The appeal of the package at a point-of-sale is definitely an integral part of the advertising campaign of any producer. Thus, we have granulated soap packed in a box which makes room for a dish towel premium; wax paper packed with a built-in cutting edge; razor blades neatly stacked in a thumb-slide dispenser kit; prepacked butter divided into four-ounce quarters; or the traditional dozen eggs in a box which can be divided in half.

The changing pattern of American family life creates new demands on packagers. Six out of ten families in the United States today are made up of three persons or less. Smaller families mean smaller loaves of bread, smaller cereal boxes, cookie packages, etc. Besides, the modern shopper likes to buy a greater variety of food-stuffs than his grandparents—and therefore a lesser quantity of any one item. Thus, in instances where smaller quantity is the objective, the packaging industry must develop smaller units. Conversely, where old-fashioned economy is the objective, the packaging industry must develop the “giant economy size.”

The giant economy size is a thing which producers naturally like to see. So this is a problem

that is attacked with zest. But when it comes to the smaller units, then obviously the packaging industry has to be more subtle. A unit must be designed which at one and the same time will contain small quantities—while inducing the consumer to buy more units! This sounds like an impossible contradiction. The answer of the packaging industry was the multiple-unit package. When Coca-Cola first introduced the six-bottle carton, it started a revolution in bottling that was soon to be followed in other lines (light bulbs, soaps, etc.). It was the answer to the dilemma of dry cereal producers, who now can bring you, in one neat package, ten different varieties of cereal—each an individual portion.

BUT WHAT happened when some packages *had* to be sold in big packages—despite market survey indications that they were much too large—because the cost of manufacturing a redesigned smaller package was prohibitive? Today's high-speed equipment has largely done away with this obstacle. Even irregularly shaped objects such as combs, tooth-brushes, etc., can be fitted into plastic containers that eliminate most of the waste that usually accompanies bulk packaging. In many restaurants, individual servings of jelly, mustard, catsup,

packed in molded Vinylite dispensers, has already replaced clogged bottles and sticky jars. There is a good chance that this trend will spread to the home, as well.

In further response to the modern shopper's desire for variety, package designers have come up with the multiple-product package, which holds many different items in one unit. In cosmetics and toiletries this kind of package has long been an important sales factor. But it is something relatively recent to food products.

SINCE the introduction of frozen foods, there has been a marked trend towards the so-called "meal package." Frozen turkey and chicken dinners, complete with bird, vegetables, gravy, stuffing, etc., arrive in one unit and help to keep the household chores to a minimum.

While the distributor, retailer and housewife probably all agree that there has been a tremendous improvement in package design during the past ten years, there are still many weaknesses to be overcome. Manufacturers complain that package designers, in

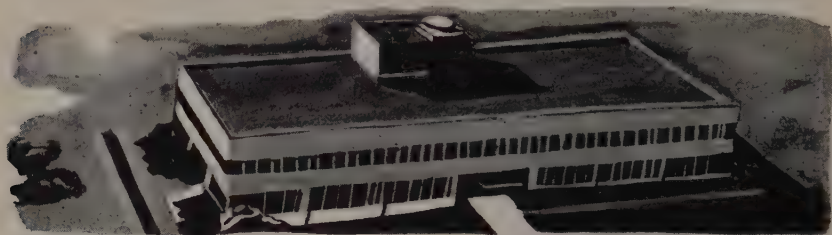
their eagerness to be different and glamorous often fail to give adequate display to brand names. The result of such a practice is that shoppers come to look for the package and not for the label—which can be disastrous when a competitor comes up with a similar-looking package. Housewives, on the other hand, complain that many packages are impractical. Jars frequently won't open and wrappings are too stiff for manicured nails. Too much standardization of products is another complaint often heard. For instance, in the case of prepackaged bacon, what happens when a shopper does not want lean bacon—and lean bacon is all that the package contains? Or, what about the housewife who wants both lean and fat bacon? Packagers have not yet come up with an answer to this type of problem.

But despite these and other shortcomings of a young industry, it is undeniable that good packaging, as an inducement to shoppers to buy, has already made significant contributions to an economy which thrives when sales figures are high. ■

U. S. is Top Producer of Machinery

THE UNITED STATES produces more machinery than all the other nations of the world together. Machine tool output in this country soared during World War II, when the industry turned out the equivalent of more than twenty years' production at the pre-war rate.

The spread of industrial activity to the West and South has enlarged the geography of plant location and made effective dispersal an everyday occurrence



Dispersal Through Growth

A CARTOGRAPHER of twenty-five years ago attempting to depict the occupational geography of the United States would have had an easy time marking out the industrial areas of the country. His factory symbols would have been concentrated in the Northeast, Middle Atlantic and Great Lakes regions. A sprinkling of other markers for the rest of the nation would have suggested mostly agricultural, mining and pastoral activities.

The same map maker today would be confronted with a more difficult task because the regional pattern of occupations is rapidly changing and is already considerably diffused. For the past two decades, and particularly since the end of World War II, our vast industrial growth has prompted a spreading-out of plants and fac-

tories from the focal points of the East and Northeast—a spreading-out in a vast arc which has covered the entire nation. Undeniably, the features of the occupational geography of the United States have been vastly altered.

The United States Bureau of Labor Statistics recently supplied evidence of this development through its latest figures on the growth of nonfarm employment. Between 1939 and 1953, there was a total increase of 63 percent of people employed in nonagricultural jobs. The biggest increase in this category was recorded by those states not ordinarily considered to be of industrial importance. These states are located, regionally in the Pacific, the West South Central, Mountain, East South Central and South Atlantic areas of the country.

To some extent the trend toward industrial equalization throughout the country is simply a by-product of our tremendous industrial growth since 1945. A certain amount of filling-in of the relatively undeveloped areas was to be expected.

But other reasons of a less spontaneous nature have precipitated these shifts in industrial location.

There has been a very sharp and specific urge for industrial dispersal in the interest of defense. The Office of Defense Mobilization, the Atomic Energy Commission and other Federal agencies, who have been responsible for guiding or financing vast research and industrial developments, have keyed industrial location to defense needs and to the needs of areas in which employment opportunities are most urgently required.

The spreading-out of industrial activity—which is effective dispersal—has, however, also played a role in the plans of many corporations. Since the end of the war there has been a marked increase in favor of decentralization, dividing facilities into units which work separately and yet with greater efficiency. Decentralization, for those companies who have carefully planned on it, has resulted in a more efficient use of labor and a cut in the costs of

transportation, raw materials and power.

To a greater extent, the spread of industrial activity into new areas has been inspired by the growth of relatively new industries. Expansion in the production of oil and gas, synthetic fibers, plastics, lightweight metals, aircraft and chemicals has favored locations outside heavily industrialized areas. Although most of the basic research in these fields took place in the Northeast and Midwest, their productive development occurred in the Western and Southern states which provided proximity to raw materials, more abundant labor supply, lower taxes, or just plain “room” in which to grow.

Thus, we see that the Pacific states, which rank first in the recent growth of nonfarm employment, are making their greatest headway in the production of oil, metals, atomic power and aircraft. The West South Central states, led by Texas, have made giant strides in oil, chemicals, synthetics and construction. The Mountain states have been caught in a rush of mining activity, not the least of which is to provide the materials basic to the development of atomic energy. Outstanding gains in the South have been registered in the textile field as a result of the steady exodus of manufacturers from the North-

east. The Southeastern states of Kentucky, Tennessee and Georgia, with ample power at their disposal, have attracted the growing chemical industry.

The Great Lakes area which has always been a leader in industrial activity, has been absorbing the continuing expansion of the metals industries as well as the rapidly growing field of electronics. It has taken over first position in manufacturing from New York, Pennsylvania and New Jersey. Moreover, the Great Lakes region stands to benefit vastly from the St. Lawrence Seaway, which will provide a link with the commerce of the Atlantic Ocean.

WHILE the Northeast undoubtedly continues to be the greatest over-all center of industrial location and probably will continue to be so for another generation, it has already lost its exclusive position. The inexorable movement of industry toward the West and South indicates that future growth for the Northeast lies with the commercial and financial activities and the service trades of the nation.

The continued boom in the construction industry is punctuated by the demands for new plants in every part of the United States as well as for new homes for an increasing industrial population. It is significant that the largest

percentage of increase in non-farm employment is in the construction industry itself.

With all this thrusting-out, expansion or relocation by American industry, major decisions are, of course, being made by businessmen who act in the interest of their companies. But the states who stand to gain, as well as individual communities, have also exercised initiative. They have shopped for and often found the new plants or industries which can increase the payroll in their areas.

The promotional campaign of the states, notably the Southern states, are well known to every newspaper reader. They are stressing whatever they have to offer—raw materials, labor, power, transportation, etc. Favorable tax rates and even new plants, built to specification and financed by the public sale of state bonds, are thrown into the fight to attract a new industry. Many states have developed educational programs to train their labor force for industrial jobs. Such persuasion and willingness to cooperate have attracted many businesses seeking to relocate or to set up a new branch.

YET there are problems for the business or industry which plans to set up shop in a "new" area. Very often traditionally nonin-

dustrialized locations will have an unorganized labor force. This raises the possibility that sooner or later attempts to unionize will begin. If the pitfalls of jurisdictional disputes can be avoided, all well and good; but in any case management must be prepared to maintain the efficiency of its operations even if unionization should mean an adjustment of pay rates to correspond with those prevailing in fully industrialized areas. Companies also must be prepared to sponsor training programs for the new industrial labor force as well as aid in the establishment of housing and transportation facilities.

The problems of those industries which contemplate relocation—moving out bag and baggage from an old location—are even more complex because they will have to face criticism and protest from the communities they intend to leave. How to bow out graciously and without inflicting undue stress on workers left high and dry surely calls for serious thinking. Some lines of cooperation must be established between local communities, the state and Federal governments and the industries involved. Otherwise, the advantages to one area result in distress for another. Economic

activity in the United States is based upon the interrelated structures of all businesses; so that if the aforementioned trouble spots are largely overlooked in favor of short-run individual gains, the resulting dislocations are likely to dissipate the apparent advantages.

Fortunately, the change in the geography of job opportunities has been more the result of absolute industrial expansion than of shifting relocation. The net effect of bringing industries into new areas will be one of increasing buying power and ultimately of expanding markets. These new markets in turn will create a greater demand and need for a wider variety of new products. In a very real sense, the spreading-out of industry is part and parcel of the general expansion of the economy.

How far this diffusion of industry will go toward eliminating the traditionally regional conflicts of this nation is still too early to say. But the trend is clear that this development will help modify old tensions and solidify a greater community of interest. Assuredly, we stand to gain from a greater coordination in the workings of the national economy as well as from a broader distribution of the national wealth. ■



The Advertising Council's program to publicize the growth factors in our economy is built around the conviction that progress and prosperity require a confident state of mind

CAN ADVERTISING SHAPE ECONOMIC ATTITUDES?

by Richard E. Deems

“**W**HO KILLED COCK ROBIN?” might well serve as an alternate title for this article—the bird in this case being the much-predicted recession of 1954. But we won’t take this title seriously because we don’t know yet whether Cock Robin is really stonedead, and because even if he is dead, no one thing was the sole executioner of the recession.

One point is becoming more and more evident: the restoration of confidence played the biggest part in stopping the slide. And I respectfully suggest that the advertising industry of the United States helped to restore confidence by effectively publicizing the growth factors in the American economy.

A spot survey by telegraph was recently conducted to find out how some of the biggest (bellwether) companies are thinking about the future of America—short and long range. Thirty companies were covered in this survey. They were asked how much they intend

to spend for plant expansion, new equipment and other capital improvements.

Although 1953 was the peak year for capital spending, these companies reported that in 1954 they were banking on America’s future prosperity to the tune of \$4.1 billion, the greatest expenditure in their history!

Fourteen of these firms also projected their plans five years ahead, through 1958. This group, alone, will invest \$3.2 billion, or an average of \$640 million a year—again the greatest capital expenditures in their history.

I am not trying to stagger you with figures, but simply pointing out in dollars-and-cents language that the forward-looking business leaders not only *see* a bright future, but they *feel* it.

The worry about a recession started in earnest around Labor Day last year. Soon there was so much argument raging about whether there was or was not a recession, and how serious it was

going to be, that, as Merle Thorpe of Cities Service Company put it on March 17: "Depression publicity during the past months has reached every man and woman in the United States and most of the peoples of the world. As a result, the words 'recession,' 'slowdown,' 'dip,' 'slump,' 'readjustment,' 'unemployment' are heard on every side."

On the basis of the usual economic indices, there was nothing too unusual about these forecasts. The economic soothsayers have been reading their crystal balls labeled inventories, car loadings, bank deposits, and they have been basing predictions on them for years. But this time a new note had crept into the prophecies; there was a recognition that state of mind had something to do with dips. Remember Shakespeare?—"There's nothing either good or bad but thinking makes it so."

Years ago Eugene Meyer of the Federal Reserve Board said that the state of mind of large groups was in itself an important economic fact. Nobody paid much attention then. But last February found the present chairman of the Federal Reserve Board, William McChesney Martin Jr., warning

Based on a recent address by Richard E. Deems, vice president of Hearst Magazines, Inc., and director of the Advertising Council, before the Advertising Club of Los Angeles, Calif.

the Senate-House economic committee that "Americans can turn the present mild decline into a serious recession simply by worrying too much about it. Anxiety can be overdone. Unless exposed to the broad daylight of facts, it could lead to severe declines in buying and hence in production and employment."

The much-respected Committee for Economic Development, including as it does the top business brains of America, also had a good deal to say about the people's state of mind in its thoughtful report, "Defense Against Recession."

ANOTHER factor that deepens recessions and depressions," said the CED report, "is psychological. The onset of a recession naturally gives rise to fears of further declines in sales, prices and incomes. This causes individuals and businesses, and even governments, to hold back their expenditures. They think they will have greater need for the money later, or that prices will be lower, or that investments will not pay off.

"If people see no adequate forces likely to put an end to a decline, if they view even a mild recession as the beginning of a descent into a bottomless pit, the psychological reaction can be disastrous."

So there it was—the psychological reaction simply could not

be permitted to become disastrous. The question advertising people asked themselves was: Could advertising help prevent the dangerous reaction?

American advertising has developed a massive and effective system for delivering persuasive messages to our citizens about what needs to be done.

This is a potent new force in American society whose importance is hard to overestimate. The good it has already accomplished is very great, and the good it *can* accomplish is untold.

Today I want to illustrate this point with a case history. I am going to concentrate on the story of one Advertising Council campaign—the 1954 campaign called “The Future of America”—which was designed to bring before the American public the facts about future economic prospects.

IT WAS OBVIOUS that nothing would be gained by psychological tricks. No mental abracadabra would work. Whatever was done had to be based on *known facts*. It had to be completely true. It had to be *simon pure*.

Fortunately, the facts were there in profusion—wonderful, stimulating, optimistic facts about America, all pointing squarely toward the conclusion that we, barring war, face a brave, new future.

The research which supplied these facts was done mostly by J. Walter Thompson’s brilliant Dr. Arno Johnson, and the facts were shaped into a presentation by the Joint Committee of the Association of National Advertisers and the American Association of Advertising Agencies. Let me give you just a sample of the exciting facts from the Future of America presentation:

Total births in 1953: approximately four million, the highest annual figure ever recorded. By 1960 our population will be close to 180 million. Every day nearly 11,000 babies are born. Each month we add to our population more than an Omaha, Nebraska, a Norfolk, Virginia, or a Toledo, Ohio.

Not only have more people been getting married, they are having more children. In 1953, births of second children were 91 percent greater than in 1940; births of third children 86 percent greater; fourth children 61 percent greater, and fifth children more than 15 percent greater.

By 1960 our population over 65 years old will number 15.5 million people. That’s a million more than the entire population of Canada. Today, old people are more active, travel more and have more money to spend.

More than half of our families take at least ten-day annual trips.

Last year, a million of us went abroad, not including servicemen. Approximately 40 million of us get paid vacations. Some 11 million of us have home workshops. Compared with 1940, we spend 140 percent more for sports equipment and toys; 129 percent more for flowers and seeds; 263 percent more for radios, musical instruments, phonographs and TV sets.

HERE then, was our confidence-building campaign. Here was the raw material out of which sane and sensible optimism could be made. The advertising industry was now ready for its newest and boldest experiment!

The first step was, obviously, to reach the policymakers of industry—those corporate officers whose decisions determine whether plants are closed or expanded. Their “yes” means jobs, and their “no” is echoed and re-echoed by smaller businessmen all over the nation. Fortunately, a golden opportunity to reach these leaders was near.

This opportunity was the Advertising Council’s White House meeting on January 12 in Washington, D.C. To this meeting each year come nearly 200 corporation heads, representing the blue book of American industry. When the Council asked the business leaders whether it should proceed to mass distribute the facts that had been developed for the Future of

America program, every hand in the house was raised.

The mass-distribution process started the very next day. Newspapers carried the story of the new program from coast to coast. Many papers carried the optimistic facts and statistics about America in full. Other papers made special Sunday features of them. And millions upon millions of people must have read them.

A sound-slide film telling the story was also ready for circulation by the Joint Committee. To date 500 copies of this film have been circulating up and down these United States. I wish it were possible to measure the confidence it has helped produce. I know of one case where it helped a Board of Directors decide to go ahead with a new multimillion-dollar plant.

Finally, the Advertising Council material began penetrating the public consciousness on every hand.

In the space of ten weeks’ time, newspapers ordered from the Council over nine million lines of Future of America advertising.

Over 90,000 carcards have been posted in the streetcars and buses of America.

On radio and television, the combined circulation since April 1 through network programs alone reached 122 million radio and television home impressions. If you

listen to such radio and television shows as Jack Benny, Lux Radio Theater, Godfrey's Talent Scouts, Colgate Comedy Hour, Philco Theater or many others, you probably heard them.

A booklet called "The Future of America" is being offered free, and is the keystone of the campaign arch. Requests for this booklet are pouring in from every state in the Union, and from foreign countries as well.

Well, that's the story. The decline has stopped and we are now on a plateau. While admitting that nobody knows for sure what the future may bring, nevertheless today a pessimist is a rarity. The same man who six months ago was saying "I don't like the looks of things" to his luncheon companion, is now going serenely about his business.

Based on the record to date, in contrast to earlier and unhappier slumps, the recession of 1954 was well nigh stillborn. It did not live up to its advance billing. It huffed and puffed, but it never really sat

down for a long stay on our doorstep.

This time, it was less than six months from worry to confidence.

Why?

Partly, of course, because of sound moves made in Washington such as the prompt easing of credit.

Partly because, as the poll shows, a majority of the people have faith in our Government.

Partly because, at the very outset of the decline, some companies announced bold plans to expand instead of retract.

But I leave it to you as to whether there was not also another reason for the prompt disappearance of anxiety and the quick ballooning of confidence.

Did not the intelligent use of the advertising method, through the quick projection of basic facts about our growing economy, help to calm the waves of fear?

In short, I leave it to you as to whether something new has not been added to the battle plan of fighting depressions. ■

Oil Is a Big Business

THE PETROLEUM INDUSTRY is made up of four segments—crude oil production, refining, transportation and distribution.

There are some 12,000 crude oil producing firms; 270 different refining companies; almost 1,400 transportation firms (54 pipelines, 42 tankship companies, 45 tank-car companies, 174 barge lines, and 1,063 tank-truck firms); and more than 25,000 bulk station and terminal operators and fuel oil dealers. In all, more than 42,000 firms are in the oil business.

From the Bookshelf

The ease with which wage earners can move from job to job is tied to a complex of social, economic and psychological factors—not always paralleling the needs of a changing labor market

How Mobile is The Work Force?

Reviewed by Dale L. Hiestand

LABOR MOBILITY AND ECONOMIC OPPORTUNITY; a collection of individual essays by E. Wight Bakke, Philip M. Hauser, Gladys L. Palmer, Charles A. Myers, Dale Yoder and Clark Kerr. 118 pp. Published jointly by Technology Press of Massachusetts Institute of Technology and John Wiley and Sons, Inc., New York, 1954.

THE PAST twenty years have seen an increasing interest in the development and utilization of our human resources. This interest springs from a growing realization that we have only a limited population and that our security and progress in the future will largely depend upon how effectively we match our abilities with the needs of an expanding economy.

Our society has primarily relied on the free labor market, which

Dale L. Hiestand, research economist with the National Manpower Council, has written several articles dealing with labor and manpower.



leaves to each individual the right to choose his job (subject to the law of supply and demand), in order to achieve these aims. The problems of the last two decades—first, large-scale unemployment, and, later, the stresses and strains of hot and cold wars—have led some economists to take a second look at the operation of this free market to determine just how effectively it utilizes the nation's manpower.

The Committee of Labor Market Research of the Social Science Research Council, which is composed of economists and manpower experts from leading universities, has concentrated on one aspect of this problem—that of labor mobility. Some of their findings to date are contained in a collection of essays recently published by the Committee under

the title of *Labor Mobility and Economic Opportunity*.

In an introductory essay, Prof. E. Wight Bakke, who is director of the Labor and Management Center at Yale University, stresses the importance of labor mobility under a market system based on individual free choice. The responsibility assigned to the individual under this system reaffirms our democratic faith in the dignity of the individual.

Prof. Bakke notes that on the whole the free movement of labor has contributed greatly to our economic development. Through it, millions of people have been matched to an amazing variety of jobs, and enterprise, initiative, invention and new skills have been fostered and developed.

BUT RECENT pressure for maximum utilization of our manpower resources has caused some economists to question whether this system can be retained. The goal of labor market research, Prof. Bakke believes, is to see how we can retain a system based on the response of the individual to the *persuasion* of the market rather than to *coercion*. While these essays do not fully answer this central question, they do provide us with some facts and suggestions that will enable us to reach more informed judgments.

Prof. Gladys L. Palmer, for

example, examines the process of readjustment to changes in employment opportunities as particular industries expand or contract. As we would expect, she has found that growing industries attract a very high proportion of the youngsters entering the labor force from schools. She has also found that younger workers tend to move from declining industries, while older workers are more likely to stay put. If shifts in a community's employment structure are not too rapid, part of the adjustment can be accomplished without individual workers having to change jobs. Instead, there will be a gradual retirement of older workers in declining industries, while the new entrants into the labor force go into expanding industries. If an industry contracts rapidly, however, many older workers may be forced to retire prematurely.

The rate at which workers change jobs responds to general employment conditions. When job opportunities are limited, most separations are involuntary. It is when the economy is booming and employment opportunities are expanding that we start looking for new and better-paying jobs.

How carefully do we select our jobs? Some economists maintain that much movement in the labor market is haphazard, that many

of us do not systematically search out the best jobs and that our knowledge of job opportunities is limited. Most jobs are landed informally, either through friends and relatives who know of openings where they work, or by direct application at a nearby firm. Dr. Palmer's studies indicate, however, that a lot of thought is given to a proper choice of employer and job, although it is true that in many cases seemingly "accidental" factors are decisive.

The crucial question is really not how purposeful workers are in seeking jobs, but how much information they have about available opportunities. The fact that most jobs are obtained through relatives and friends or by direct application suggests only limited information about job openings. Under such circumstances, workers may make perfectly rational decisions but still not obtain the full advantages of a free labor market. Lack of job information, Prof. Palmer believes, is a major cause for job dissatisfaction, which, in turn, is often responsible for serious production bottlenecks.

Considerable attention is also given to the artificial barriers that stand in the way of complete labor mobility. Prof. Clark Kerr examines what he calls the "balkanization" of labor markets—that is, the isolation of workers

from the competition of other workers. Although he discusses such deterrents to mobility as discriminatory personnel policies and informal understandings among employers, Prof. Kerr concentrates for the most part on the restrictive character of the craft and seniority systems.

Craft unions claim a monopoly over jobs falling within carefully defined occupational and geographical areas. Employers needing these occupational skills are obliged to hire union members. Union members thus enjoy a good deal of mobility among employers offering jobs within a certain skill classification, for they are protected from competition. Outside their specific skill classification, however, they are no longer protected and may even be excluded.

Not so generally appreciated is the effect on labor mobility of seniority systems typical of many industrial unions. Under seniority rules, a worker becomes unemployed only after those hired after him are laid off. He is rehired only after those with longer service have been called back.

Seniority rights also frequently decide who gets promoted. It has become increasingly difficult to substitute ability for seniority. The result is that often only one or, at most, a very few workers

have any chance to move up.

This type of security, therefore, is not bought without a price. When there are no employment opportunities in his craft, the worker is unable to compete for the many vacancies outside of his limited skill classification. And the industrial worker with seniority finds his fortunes tied to his company. If the company expands its work force rapidly, he may advance rapidly. But if employment is stable or declining, he may have to wait most of his life to move up. And even if he feels that he could advance more rapidly than the seniority system permits, there is not much he can do about it; for if he moved to another company, he would be forced to start at the bottom of the list.

Prof. Kerr points out that many such systems are in operation where there are no unions. Seniority is and has been an informal principle in many places. What he objects to is the artificial rigidity such a system imposes on the free flow of labor.

In another essay, Prof. Palmer points out that the comparative lack of labor mobility in Europe, which she ascribes to closer communal ties, rigid rules for training, housing shortages and other factors, has severely limited the growth and flexibility of European economies. Actually, the

need for greater mobility within our work force is now greater than ever, for our pool of labor skills is severely limited.

This book, like many other studies in the field, concentrates primarily on employees in manufacturing. This somewhat limits its usefulness, for statistics indicate that employment in manufacturing has declined in relative importance, and indications are that this trend will continue. So far, our information on labor mobility in the clerical, service, professional and managerial fields is very limited.

Besides, as Prof. Hauser indicates in another essay, our knowledge of the role of psychological and social factors in labor mobility is still in the speculative stage. And yet research points out more and more that factors other than wages or family income play an important role in labor force participation. Most people who quit jobs do so because of unsatisfactory working conditions or for personal reasons. Only a small minority report that wages are a major factor in this connection.

The fact is that we must learn a good deal more about the economic, social and psychological factors that make us seek certain jobs and avoid others, if we want to obtain the full benefits of a free labor market. ■

Economics in Action

Oct. 1954

(Cont'd from p. 2)

to cover Government expenditures—\$2.3 billion less than the President asked and \$6.8 billion less than was appropriated last year. The big political debate centers around how this money will be spent.

The business outlook is, of course, one of the principal issues in the current political campaign, for it is largely in terms of what happens to the economy that the average voter will judge the 83rd Congress' legislative record:

Republicans, by and large, are bullish. They credit the policies of the Eisenhower Administration with halting the business dip before it really could get started. The new tax law and the Treasury's "easy money" policy, together with a more "positive" attitude towards business, have, they believe, generated confidence in the soundness of the economy. Now that business has had a chance to become adjusted to smaller Government outlays and manufacturers have liquidated most of their excess inventory, the stage is set for a healthy expansion.

Democrats, on the other hand, are less optimistic. While most of them agree that the business dip has been halted (the Federal Reserve Index of Industrial Production has remained unchanged for the last three months), they don't see any signs of a pick-up on the horizon. And they hold the Administration's policies responsible for not increasing purchasing power of the "little man."

Actually, this debate is more political than economic. Both parties agree that our economy is fundamentally sound. Democrats agree that consumer purchasing power depends on business investing and creating more job

opportunities. Republicans agree that business will increase investment if there are enough customers around who are willing and able to buy this expanded production.

In foreign trade, Congress left things pretty much as they were:

Tariffs won't go up or down. Congress voted a one-year extension of the Reciprocal Trade Law, but refused to give the President power to cut tariffs by as much as 15%—as he had requested. On the other hand, Congress did not raise tariffs on individual items.

Foreign aid was cut, but not as drastically as had been expected. Congress voted \$3 billion (compared to the \$3.5 billion asked for by the President), and the major share of this money is earmarked for Asia.

The Department of Better Mousetraps: a broom that uses electrostatic action to attract dirt and dust . . . canned wine . . . a combination dishwasher and garbage disposal unit . . . a toy electronic organ that plays through an ordinary radio . . . a wristwatch with the winding knob on the left side so that it can be worn on the right wrist . . . a concentrated deodorant powerful enough to mask a skunk . . . a fish wrapper which, the advertisers claim, actually improves the taste of the fish . . . a control device for autos which can be attached to the accelerator pedal, set for any desired maximum speed and then locked (father keeps the key) . . . a wallpaper that kills flies . . . and, finally, the latest in electronic marvels: a TV-telephone which lets you see the person you are talking to—provided you are willing to be seen, as well.